

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

2006-2007

Publication prepared under the authority of
the Minister of Finance

**Financial statements of the agencies and entreprises of the Québec
2006-2007**

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October 2008**

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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.

Monique Jérôme-Forget
Minister of Finance, Minister of Government Services,
Minister responsible for Government Administration and
Chair of the Conseil du trésor

Québec, October 2008

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(*) Not available at time of publication

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

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Gouvernement du Québec contribution	\$2 140 400	\$2 171 200
Other partners' contribution (Note 3)	11 897 590	13 756 138
Other revenue	66 676	97 492
	<u>14 104 666</u>	<u>16 024 830</u>
EXPENSES		
Subsidies awarded (Note 4)	9 783 519	10 804 524
Sponsorships and promotion	680 554	480 608
Salaries and fringe benefits	2 664 052	2 277 211
Professional fees and administrative expenses	1 355 182	630 564
Communications	460 419	521 376
Training	10 566	22 182
Leasing costs	130 613	127 497
Supplies	64 808	44 202
Maintenance and repairs	9 312	7 296
Change in provision for recovery-risk loans	(66 392)	53 756
Bad debts	54 780	24 340
Financial expenses	398	31 299
Loss on sale of capital assets		5 050
Amortization of capital assets	21 033	32 257
	<u>15 168 844</u>	<u>15 062 162</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	<u><u>\$(1 064 178)</u></u>	<u><u>\$962 668</u></u>

The notes are an integral part of these financial statements.

CUMULATIVE SURPLUS STATEMENT
for the year ended March 31, 2007

	2007	2006
CUMULATIVE SURPLUS, BEGINNING OF YEAR	\$2 318 878	\$1 356 210
(Deficiency) excess of revenues over expenses	<u>(1 064 178)</u>	<u>962 668</u>
CUMULATIVE SURPLUS, END OF YEAR	<u><u>\$1 254 700</u></u>	<u><u>\$2 318 878</u></u>

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**BALANCE SHEET**
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Consolidated Revenue Fund	\$901 045	\$662 359
Accounts receivable (Note 5)	4 369 837	4 444 250
Loans redeemable in the short term (Note 6)	<u>230 227</u>	<u>115 813</u>
	5 501 109	5 222 422
Loans (Note 6)	9 375	103 307
Capital assets (Note 7)	<u>73 911</u>	<u>61 851</u>
	<u>\$5 584 395</u>	<u>\$5 387 580</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$3 358 297	\$1 684 754
Deferred revenue	149 667	695 545
Short-term portion of the long-term debt (Note 9)	<u>2 818</u>	<u>4 572</u>
	3 510 782	2 384 871
Long-term debt (Note 9)		2 818
Provision for sick leave (Note 10)	<u>751 936</u>	<u>614 036</u>
	<u>4 262 718</u>	<u>3 001 725</u>
EQUITY		
Gouvernement du Québec contributed surplus	66 977	66 977
Appropriated cumulative surplus (Note 11)	<u>1 254 700</u>	<u>2 318 878</u>
	<u>1 321 677</u>	<u>2 385 855</u>
	<u>\$5 584 395</u>	<u>\$5 387 580</u>

COMMITMENTS (Note 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Richard Lamarche
Richard Aubry

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenses	\$(1 064 178)	\$962 668
Items not affecting cash flows:		
Change in provision for recovery-risk loans	(66 392)	53 756
Amortization of capital assets	21 033	32 257
Loss on sale of capital assets		5 050
	<u>(1 109 537)</u>	<u>1 053 731</u>
Change in non-cash items related to operations		
Change in accounts receivable	74 413	(1 157 161)
Decrease in prepaid expenses		46 340
Change in accounts payable and accrued liabilities	1 654 064	(373 929)
Change in deferred revenue	(545 878)	450 675
Increase in provision for sick leave	137 900	56 097
	<u>1 320 499</u>	<u>(977 978)</u>
Cash flows from operating activities	<u>210 962</u>	<u>75 753</u>
INVESTMENT ACTIVITIES		
Loans		(48 750)
Loan repayment	45 910	135 512
Acquisition of capital assets	(13 614)	(8 497)
Proceeds on sale of capital assets		43 200
Cash flows from investment activities	<u>32 296</u>	<u>121 465</u>
FINANCING ACTIVITIES		
Long-term debt repayment	<u>(4 572)</u>	<u>(4 263)</u>
INCREASE - CONSOLIDATED REVENUE FUND RECEIVABLE	238 686	192 955
CONSOLIDATED REVENUE FUND RECEIVABLE, BEGINNING OF YEAR	<u>662 359</u>	<u>469 404</u>
CONSOLIDATED REVENUE FUND RECEIVABLE, END OF YEAR	<u>\$901 045</u>	<u>\$662 359</u>
Additional information		
Acquisition of capital assets included in accounts payable and accrued liabilities	<u>19 749</u>	

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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 promote energy efficiency, in keeping with the principle of sustainable development, for all forms of energy, in all sectors of activity and for the benefit of all the 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 agency does not pay income tax.

Assented to on December 13, 2006, Bill 52, entitled the Act respecting the implementation of the Québec Energy Strategy and amending various legislative provisions, broadened the scope of the agency's mandate, making it responsible for preparing, implementing and monitoring a comprehensive energy efficiency and new technologies plan.

The bill also amended the agency's financing. Henceforth, the agency will finance its activities from energy distributors' quotas, whose amounts are set by the Régie de l'énergie. The agency may also set a fee rate for services it offers in the context of its activities. Finally, it may receive amounts from a third party.

2. ACCOUNTING POLICIES

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

Contributions

Gouvernement du Québec

Gouvernement du Québec contributions are reported as revenues for the fiscal year in which they were granted.

Other partners

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

Subsidies and loans

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

Capital assets

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

Rolling stock	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 rates as other capital assets.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)

Capital assets (cont'd)

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

Provision for recovery-risk loans

When loan recovery is deemed uncertain, book values are calculated at estimated realizable value. When realization amounts and times cannot be estimated reasonably and reliably, estimated realizable value is measured according to management's judgement.

Pension plans

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

Cash and cash equivalents

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

3. OTHER PARTNERS' CONTRIBUTION

	Hydro-Québec	Gaz Métro and Energy Efficiency Fund	Gazifère	Federal govern- ment	Other	Total
	2006-2007 *					
Novoclimat – Single-family	\$1 252 173	\$20 885		\$75 000	\$10	\$1 348 068
Novoclimat – Dwelling	865 349	15 750				881 099
Program assessment	4 733					4 733
Measure for low-income households	4 050 957	33 600	\$8 132			4 092 689
Energy evaluation service	808 501	41 521	26 800			876 822
Call centre	243 501					243 501
Building regulations	313 760			682 677		996 437
Federal programs (CBIP, EII, REDI)				3 451 880		3 451 880
Other initiatives	2 361					2 361
	<u>\$7 541 335</u>	<u>\$111 756</u>	<u>\$34 932</u>	<u>\$4 209 557</u>	<u>\$10</u>	<u>\$11 897 590</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. OTHER PARTNERS' CONTRIBUTION (cont'd)

	Hydro-Québec	Gaz Métro and Energy Efficiency Fund	Gazifère	Federal government	Other	Total
2005-2006 *						
Novoclimat – Single-family	\$1 099 951	\$6 300		\$222 931		\$1 329 182
Novoclimat – Dwelling	2 935 453	51 830				2 987 283
Measure for low-income households	3 656 370	93 480	\$12 713			3 762 563
Energy evaluation service	527 894	3 225		1 288 950		1 820 069
Call centre	442 897					442 897
Building regulations	134 012			180 057		314 069
Federal programs (CBIP, EII, REDI)				3 006 873		3 006 873
Other initiatives				47 000	\$46 202	93 202
	<u>\$8 796 577</u>	<u>\$154 835</u>	<u>\$12 713</u>	<u>\$4 745 811</u>	<u>\$46 202</u>	<u>\$13 756 138</u>

* To ensure fairness for all energy consumers, in 2005-2006 and 2006-2007, the agency paid program expenses of customers whose main heating source is fuel oil from its own budget.

4. SUBSIDIES AWARDED

	2007	2006
Government enterprises and agencies	\$101 905	\$78 100
Private-sector enterprises	3 042 080	3 480 489
Municipalities and municipal housing bureaus	670 850	235 476
Homes	166 400	241 800
Health, educational and social services institutions	2 798 929	2 703 728
Private-sector non-profit organizations	3 003 355	4 064 931
	<u>\$9 783 519</u>	<u>\$10 804 524</u>

5. ACCOUNTS RECEIVABLE

	2007	2006
Other partners' receivable	\$4 353 607	\$4 404 787
Other	16 230	39 463
	<u>\$4 369 837</u>	<u>\$4 444 250</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
6. LOANS

	2007	2006
Interest-free loans repayable from 2007 to 2011	\$241 800	\$334 687
Interest-free loans repayable in royalties	35 000	57 150
Interest-free loans repayable as per agreements	95 682	90 280
	<u>372 482</u>	<u>482 117</u>
Provision for recovery-risk loans		
Interest-free loans repayable from 2007 to 2011	(57 560)	(148 567)
Interest-free loans repayable in royalties	(35 000)	(57 150)
Interest-free loans repayable as per agreements	(40 320)	(57 280)
	<u>(132 880)</u>	<u>(262 997)</u>
Net loans	239 602	219 120
Less: Loans redeemable in the short term	230 227	115 813
	<u>\$9 375</u>	<u>\$103 307</u>

7. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Rolling stock	\$69 200	\$69 200	
Furniture and equipment	19 797	19 797	
Data processing equipment	163 588	124 600	\$38 988
Specialized equipment	43 845	12 789	31 056
	<u>296 430</u>	<u>226 386</u>	<u>70 044</u>
Item leased under a capital lease			
Furniture and equipment	19 337	15 470	3 867
	<u>\$315 767</u>	<u>\$241 856</u>	<u>\$73 911</u>
			<u>\$61 851</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Subsidies awarded	\$1 595 862	\$1 164 932
Accounts payable	1 383 613	170 910
Salaries and fringe benefits	75 674	84 201
Vacation time	303 148	264 711
	<u>\$3 358 297</u>	<u>\$1 684 754</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. LONG-TERM DEBT**

	2007	2006
Liability for capital assets, bearing interest at 7%, repayable in monthly instalments of \$412, including capital and interest, maturing in October 2007	\$2 884	\$7 828
Interest included in payments	(66)	(438)
	2 818	7 390
Minus: Portion maturing in the short term	(2 818)	(4 572)
	<u>\$2 818</u>	<u>\$2 818</u>

The minimum amount payable under this capital lease for coming fiscal years is:

2008	\$2 884

10. FUTURE FRINGE BENEFITS**Pension plans**

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

The agency's contributions charged to the year-end statement total \$115 988 (2006: \$102 255). The agency's liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$614 036	\$557 939
Annual expenses	221 432	94 849
Benefits paid during the year	(83 532)	(38 752)
Balance, end of year	<u>\$751 936</u>	<u>\$614 036</u>

11. APPROPRIATED CUMULATIVE SURPLUS

Management decided that the agency would use its entire cumulative surplus to pay the agency's relocation expenses and its other administrative obligations under the Act.

12. COMMITMENTS

The agency is committed to paying maximum subsidies of \$31 411 in 2007 under the programs it administers. However, these subsidies are conditional upon the appropriations allocated by Parliament.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

13. FINANCIAL INSTRUMENTS

The Consolidated Revenue Fund balance receivable, accounts receivable, accounts payable and accrued liabilities, deferred revenues and short-term portion of the long-term debt are financial instruments whose fair value is close to their book value given that they mature in the short term. The fair value of loans cannot be reasonably estimated, given the absence of a market for such loans.

Credit risk

The agency'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 agency evaluates these assets on an ongoing basis and posts a provision for losses when they are deemed unrecoverable.

Based on Note 5 to these financial statements, Hydro-Québec represents 80% of the accounts receivable.

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. CONTINGENCY

When employees were transferred from the Ministère des Ressources naturelles to the Agence de l'efficacité énergétique, a provision for sick leave, payable by the Department, was established. Since then, the agency has had to pay amounts related to this sick leave and vacation time for which the Department did not pay the necessary contributions. It is impossible for the agency to determine the amount that will be paid by the Ministère des Ressources naturelles given that the terms and conditions of the agreement between the parties have not yet been set.

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

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

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

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

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

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

Réjean Carrier
Director General

Lysane Montminy
Director, Business Development

Québec, June 14, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Agence de l'efficacité énergétique as at March 31, 2007 and the statements of operations, cumulative surplus and cash flows for the year then ended. These financial statements are the responsibility of the agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the agency as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
for the Auditor General of Québec,

Québec, June 14, 2007

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

STATEMENT OF OPERATIONS AND CUMULATIVE SURPLUS
for the year ended March 31, 2007

	2007 (12 months)	2006 (11 months)
REVENUES		
Gouvernement du Québec contribution		\$2 467 250
Transfer of government assistance	\$6 630	3 978
Outside consultants' fees	3 979 436	157 867
Honoraria (agency)	4 918 856	
	<u>8 904 922</u>	<u>2 629 095</u>
EXPENSES		
Salaries and fringe benefits	3 064 747	1 291 607
Professional and administrative services and outside consultants	4 300 918	917 371
Rent	282 362	203 847
Travel and promotion	212 158	86 954
Communications	93 696	46 298
Furnishings and supplies	156 211	52 812
Amortization of capital assets	134 304	24 619
Amortization of intangible assets	5 425	1 221
Interest on the long-term debt	15 948	3 461
Bank charges	19 578	905
	<u>8 285 347</u>	<u>2 629 095</u>
NET INCOME AND CUMULATIVE SURPLUS, END OF YEAR (Note 8)	<u><u>\$619 575</u></u>	<u><u></u></u>

The notes are an integral part of these financial statements.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
BALANCE SHEET
 as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$819 977	\$217 668
Accounts receivable (Note 3)	1 538 217	285 086
Prepaid expenses	<u>41 894</u>	<u>18 590</u>
	2 400 088	521 344
Capital assets (Note 4)	<u>548 747</u>	<u>509 883</u>
	<u><u>\$2 948 835</u></u>	<u><u>\$1 031 227</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$1 416 910	\$190 115
Amount owed to the Gouvernement du Québec, interest-free, no terms of repayment	258 213	258 213
Short-term portion of the long-term debt (Note 6)	88 707	66 822
Provision for vacation time (Note 7)	<u>129 571</u>	<u>99 367</u>
	1 893 401	614 517
Provision for sick leave (Note 7)	157 161	116 473
Deferred government assistance – unamortized cost	13 260	19 890
Long-term debt (Note 6)	<u>265 438</u>	<u>280 347</u>
	2 329 260	1 031 227
CUMULATIVE SURPLUS	<u>619 575</u>	<u> </u>
	<u><u>\$2 948 835</u></u>	<u><u>\$1 031 227</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Claude A. Garcia, President
 Denys Jean, Vice-President

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2007

	2007 (12 months)	2006 (11 months)
OPERATING ACTIVITIES		
Net income	\$619 575	
Item not affecting cash flows		
Transfer of government assistance	(6 630)	\$(3 978)
Amortization of capital assets	134 304	24 619
Amortization of intangible assets	5 425	1 221
	<u>752 674</u>	<u>21 862</u>
Change in assets and liabilities linked to operations		
Prepaid expenses	(23 304)	(18 590)
Accounts receivable	(1 253 131)	(285 086)
Accounts payable and accrued liabilities	1 226 795	187 394
Amount owed to the Gouvernement du Québec		258 213
Provision for vacation time	30 204	99 367
Provision for sick leave	40 688	116 473
	<u>21 252</u>	<u>357 771</u>
Cash flows from operating activities	<u>773 926</u>	<u>379 633</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(99 576)	(133 015)
Acquisition of intangible assets	(5 218)	(14 384)
Cash flows from investment activities	<u>(104 794)</u>	<u>(147 399)</u>
FINANCING ACTIVITIES		
Cash flows from financing activities:		
Long-term debt	(66 823)	(14 566)
INCREASE IN CASH ON HAND	602 309	217 668
CASH ON HAND, BEGINNIGN OF YEAR	<u>217 668</u>	
CASH ON HAND, END OF YEAR	<u><u>\$819 977</u></u>	<u><u>\$217 668</u></u>

Interest paid over the fiscal year totals \$30 830.

The agency acquired \$73 798 in capital assets in exchange for a long-term debt of an equivalent amount.

The notes are an integral part of these financial statements.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

1. CONSTITUTION AND PURPOSE

The Agence des partenariats public-privé du Québec, is a legal person established under section 1 of the Act respecting the Agence des partenariats public-privé du Québec (R.S.Q., c. A-7.002), which came into effect on April 18, 2005.

The agency's mission is to contribute, through its advice and expertise, to the renewal of public infrastructures and the enhancement of services delivered to citizens through public-private partnership projects.

Under section 2 of its incorporating legislation, the agency is a mandatary of the State and, as such, is not subject to Québec or Canadian income taxes.

When the agency was created, Secrétariat du Conseil du trésor employees were assigned there, in keeping with section 60 of its incorporating legislation.

2. ACCOUNTING POLICIES

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

Capital assets

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

Leasehold improvements	5 years
Furniture and office equipment	5 years
Data processing equipment and office automation	3 years

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

Subsidies for the acquisition of capital assets are recorded as deferred government assistance and transferred to results using the same method and amortization rates as the related subsidized capital assets.

Intangible assets

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

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

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

Proceeds recording

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

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)
Services rendered free of charge

The cost of certain salaries and fringe benefits, paid out of the various appropriations of certain government departments or agencies, are not presented in the financial statements.

Pension plans

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

3. ACCOUNTS RECEIVABLE

	2007	2006
Ministère de la Santé et des Services sociaux Gouvernement du Québec*	\$472 844	\$127 219
Ministère des Transports du Québec	332 055	126 744
Ministère de la Culture et des Communications	583 318	31 123
Secrétariat du Conseil du trésor	150 000	
	<u>\$1 538 217</u>	<u>\$285 086</u>

* This receivable corresponds to the sum transferred to the agency for the secondment of Secrétariat du Conseil du trésor employees (Notes 1 and 7).

4. CAPITAL ASSETS

	As at March 31, 2007		
	Cost	Accumulated depreciation	Net value
Capital assets			
Leasehold improvements	\$435 879	\$94 030	\$341 849
Office furniture and equipment	111 550	22 015	89 535
Computer and office-automation equipment*	147 285	42 878	104 407
	694 714	158 923	535 791
Intangible assets			
Software	19 602	6 646	12 956
Total	<u>\$714 316</u>	<u>\$165 569</u>	<u>\$548 747</u>

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

 NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 March 31, 2007

4. CAPITAL ASSETS (cont'd)

	As at March 31, 2006		
	Cost	Accumulated depreciation	Net value
Capital assets			
Leasehold improvements	\$361 735	\$15 504	\$346 231
Office furniture and equipment	87 870	2 073	85 797
Computer and office-automation equipment*	71 734	7 042	64 692
	<u>521 339</u>	<u>24 619</u>	<u>496 720</u>
Intangible assets			
Software	14 384	1 221	13 163
	<u>14 384</u>	<u>1 221</u>	<u>13 163</u>
Total	<u>\$535 723</u>	<u>\$25 840</u>	<u>\$509 883</u>

* The item "Computer and office-automation equipment" includes computers received free of charge from the Gouvernement du Québec, in the amount of \$23 868.

5. BANK BORROWING

Under Order-in-Council 169-2006, the Gouvernement du Québec authorized the agency to contract a maximum \$3 000 000 bank line of credit.

At March 31, 2007, the agency had not yet contracted this borrowing.

6. LONG-TERM DEBT
Borrowing from the Société immobilière du Québec

	2007	2006
At a fixed rate of 4.69%, repayable in monthly instalments of \$3 471, maturing October 31, 2010	\$137 146	\$171 488
At a fixed rate of 4.70%, repayable in monthly instalments of \$3 278, maturing March 31, 2011	143 201	175 681
At a fixed rate of 4.70%, repayable in monthly instalments of \$1 377, maturing October 31, 2011	73 798	
	<u>354 145</u>	<u>347 169</u>
Minus: Portion maturing in the short term	88 707	66 822
	<u>\$265 438</u>	<u>\$280 347</u>

Capital payments for the next 5 fiscal years are:

2008	\$88 707
2009	86 909
2010	91 080
2011	77 958
2012	9 491
	<u>\$354 145</u>

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

7. FRINGE BENEFITS

Pension plans

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

The agency's contributions charged to the year-end statement total \$124 287 (2006: \$38 735). The agency's liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	As at March 31, 2007		
	Vacation time	Sick leave	Total
Balance as at March 31, 2006	\$99 367	\$116 473	\$215 840
Net change for fiscal year	30 204	40 688	70 892
	<u>\$129 571</u>	<u>\$157 161</u>	<u>\$286 732</u>

	As at March 31, 2006		
	Vacation time	Sick leave	Total
Increase due to arrival of employees (Note 1)	\$37 091	\$90 128	\$127 219
Net change for fiscal year	62 276	26 345	88 621
	<u>\$99 367</u>	<u>\$116 473</u>	<u>\$215 840</u>

8. CUMULATIVE SURPLUS

Under section 44 of its incorporating legislation, the monies received by the agency must be allocated to the payment of its obligations. The agency retains any surpluses, unless the Government decides otherwise.

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded 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.

10. COMMITMENTS

The agency is committed, under long-term building lease contracts maturing on various dates up to October 31, 2011, to paying a total of \$1 187 002. Minimum amounts payable for the next 5 fiscal years are: \$283 324 in 2008, 2009, 2010 and 2011 and \$53 706 in 2012.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

11. FINANCIAL INSTRUMENTS**Fair value**

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

The fair value of the long-term debt is equivalent to its book value, given that market conditions on March 31, 2007 are similar to those prevailing when it was issued.

Credit risk

The agency's credit risk exposure corresponds to the financial assets' book value.

Interest rate risk

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

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

MANAGEMENT'S REPORT

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

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

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

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

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

Jacques Dutil
Director, Administration

Pierre Lefebvre
President-Chief Executive Officer

Québec, June 15, 2007

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

To the National Assembly

I have audited the balance sheet of the Agence des partenariats public-privé du Québec as at March 31, 2007 and the statements of operations and cumulative surplus and cash flows for the year then ended. These financial statements are the responsibility of the agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the agency as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
for the Auditor General of Québec

Québec, June 15, 2007

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

OPERATING FUND

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

	Budget 2006 (unaudited)	2006	2005
REVENUES			
Government remittances:			
- for fuel tax	50 450	51 254	50 905
- for licence fees	50 180	50 383	49 441
Net revenue from TRAM sales (Note 4)	60 958	63 742	58 419
Revenue from commuter trains (Note 5)	38 773	41 128	37 617
Municipal contributions to the cost of commuter rail systems (Note 5)	31 608	31 524	29 520
Ministère des Transports du Québec subsidies to service the public transit operating authorities (PTOA) debt:			
- for commuter trains	5 636	5 636	7 122
- for metropolitan transit facilities	511	511	659
Government assistance for adapted transportation program	450	450	450
Revenue from metropolitan expresses	1 611	1 681	1 443
Municipal contributions to metropolitan expresses	587	432	413
Contributions to metropolitan transit facilities	1 200	954	690
Other	1 360	2 064	1 393
	<u>243 324</u>	<u>249 759</u>	<u>238 072</u>
EXPENSES			
Distribution of net revenue from TRAM sales (Note 4)	60 958	63 742	58 419
Metropolitan assistance and related expenditures (Note 6)	56 364	57 027	56 600
Commuter trains (Note 5)	83 869	84 175	79 567
Metropolitan transit facilities	12 368	11 800	12 353
PTOA debt servicing:			
- for commuter trains	5 636	5 636	7 122
- for metropolitan transit facilities	626	643	850
Operating expenses	6 000	6 219	5 474
Development assistance	3 000	1 998	2 113
Assistance for reduced-rate TRAM tickets and related expenses (Note 7)	5 561	5 924	5 288
Rate integration assistance (Note 8)	1 907	2 519	937
Special remittance to PTOAs (Note 9)			3 059
Adapted transportation	1 300	1 324	945
Metropolitan expresses	3 108	3 013	2 749
Other	2 627	2 316	2 096
	<u>243 324</u>	<u>246 336</u>	<u>237 572</u>
RESULTS		3 423	500
Unappropriated surplus, beginning of year		1 000	500
Appropriated surplus (Note 3)		<u>3 423</u>	
UNAPPROPRIATED SURPLUS, END OF YEAR		<u>1 000</u>	<u>1 000</u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT**OPERATING FUND****BALANCE SHEET**
as at December 31,
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand and term deposits	38 302	34 066
Government remittances receivable	22 154	21 436
Accounts receivable	4 013	6 055
Spare parts for commuter trains	<u>3 540</u>	<u>2 966</u>
	<u><u>68 009</u></u>	<u><u>64 523</u></u>
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	63 586	63 523
FUND BALANCE		
Unappropriated surplus	1 000	1 000
Appropriated surplus	<u>3 423</u>	<u> </u>
	<u><u>68 009</u></u>	<u><u>64 523</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

AGENCE MÉTROPOLITAINE DE TRANSPORT**FIXED ASSETS FUND****STATEMENT OF OPERATIONS AND PERMANENT FINANCING REQUIRED**

for the years ended December 31

(in thousands of dollars)

	2006	2005
PERMANENT FINANCING		
Ministère des Transports du Québec subsidies	172 999	234 846
Municipal contributions (Note 10)	20 338	18 106
Other subsidies	14	403
Other	2 491	1 198
	<u>195 842</u>	<u>254 553</u>
INVESTMENT IN CAPITAL ASSETS		
Commuter trains		
- Train fleet	2 714	45 900
- Deux-Montagnes	3	52
- Dorion-Rigaud	429	1 496
- Blainville	25 487	3 290
- Mont-Saint-Hilaire	112	337
- Delson-Candiac	485	2 243
Metropolitan transit facilities		
- Reserved traffic lanes	12 795	1 632
- Terminal building	81	3 691
Change in construction work in progress		
- Subway extension towards Laval	161 291	196 044
- Other	(11 523)	3 708
	<u>191 874</u>	<u>258 393</u>
Contribution for other metropolitan projects		
Contribution to Réno-Systèmes program	8 109	10 330
Feasibility and preliminary design studies – Light trains	32	224
Feasibility studies – Miscellaneous	2 179	670
Other (Note 11)	3 033	2 101
	<u>205 227</u>	<u>271 718</u>
DEFICIENCY OF PERMANENT FINANCING OVER INVESTMENTS FOR THE YEAR	(9 385)	(17 165)
Permanent financing required, beginning of year	<u>(64 152)</u>	<u>(46 987)</u>
PERMANENT FINANCING REQUIRED, END OF YEAR	<u>(73 537)</u>	<u>(64 152)</u>

See notes to the financial statements.

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

as at December 31
(in thousands of dollars)

	2006	2005
ASSETS		
Cash on hand and term deposits	25 951	7 347
Ministère des Transports du Québec receivable	825 196	688 458
Capital assets (Note 11)	1 153 833	991 034
Other	2 670	1 091
	<u>2 007 650</u>	<u>1 687 930</u>
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	70 164	94 767
Notes payable (Note 13)	857 190	666 281
	<u>927 354</u>	<u>761 048</u>
FUND BALANCE		
Permanent financing required	(73 537)	(64 152)
Net investments in capital assets	1 153 833	991 034
	<u>2 007 650</u>	<u>1 687 930</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 CAPITAL ASSETS

as at December 31
(in thousands of dollars)

	2006	2005
BALANCE, BEGINNING OF YEAR	991 034	759 491
Acquisition of capital assets	191 874	258 393
Depreciation of capital assets	(29 075)	(26 850)
BALANCE, END OF YEAR	<u>1 153 833</u>	<u>991 034</u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. STATUS AND NATURE OF ACTIVITIES

The Agence métropolitaine de transport (AMT) is a legal person established in the public interest, a mandatory of the Québec government, created under the Act respecting the Agence métropolitaine de transport (R.S.Q., c. A-7.02, referred to as the Act), which began its activities on January 1, 1996. In keeping with its incorporating legislation, the AMT manages, operates and finances commuter train services, metropolitan services and metropolitan transit facilities. It plans and carries out all subway 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) Operating Fund

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

ii) Fixed Assets Fund

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

Accounting estimates

Preparation of the financial statements requires management to use estimates and assumptions that affect the amounts presented in the financial statements. Real results may 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 under the appropriate fund 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 THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets acquired from the Fixed Assets Fund are recorded at cost. 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. Capital assets are amortized over their service life in accordance with the straight-line method and the following periods:

Commuter trains – infrastructures	20 years
Commuter trains – worn rolling stock	10 years
Commuter trains – new rolling stock - locomotives	20 years
Commuter trains – new rolling stock – cars	25 years
Metropolitan transit facilities – reserved traffic lanes	20 years
Metropolitan transit facilities – incentive parking	20 years
Metropolitan transit facilities – terminal building	20 years

Amortization is recorded in the Statement of the Net Investments in Capital Assets.

Appropriated surplus

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

3. APPROPRIATED SURPLUS

For fiscal 2006, the Board of Directors resolved to assign \$3 423 to the unappropriated surplus to create a reserve as protection against certain risks to which its commuter train goods and operating activities are exposed and to establish a reserve for the implementation of certain future operating activities designed to increase the offer of services resulting from the Québec Public Transit Policy.

4. 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:

Net revenue from TRAM sales

	Budget 2006 - unaudited	2006	2005
Société de transport de Montréal	27 327	27 856	25 858
Réseau de transport de Longueuil	15 096	15 152	14 405
Société de transport de Laval	8 549	9 222	8 214
Intermunicipal transportation councils	7 173	8 169	7 132
Conseil régional de transport de Lanaudière	2 150	2 540	2 181
Municipalities	663	803	629
	<u>60 958</u>	<u>63 742</u>	<u>58 419</u>

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

December 31, 2006

(in thousands of dollars)

5. COMMUTER TRAINS
Commuter train receipts

Commuter train receipts result from the sale of train tickets and a \$27 061 allocation for TRAM sales in 2006 (2005: \$25 424).

Commuter train receipts

	Budget 2006 - unaudited	2006	2005
Deux-Montagnes	17 492	18 227	17 008
Dorion-Rigaud	6 026	8 077	6 038
Blainville	7 893	8 476	7 419
Mont-Saint-Hilaire	5 406	4 651	5 218
Delson-Candiac	1 956	1 697	1 934
	<u>38 773</u>	<u>41 128</u>	<u>37 617</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 routes between the municipalities served by a commuter train route according to the number of trains, per kilometre, serving each segment.

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

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

Municipal contributions to commuter trains

	Budget 2006 - unaudited	2006	2005
Deux-Montagnes	12 274	12 225	11 857
Dorion-Rigaud	9 454	9 565	9 178
Blainville	5 274	4 142	4 412
Mont-Saint-Hilaire	3 234	3 910	2 883
Delson-Candiac	1 372	1 682	1 190
	<u>31 608</u>	<u>31 524</u>	<u>29 520</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

5. COMMUTER TRAINS (cont'd)

Operating costs

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

Operating costs

	Budget 2006 - unaudited	2006	2005
Deux-Montagnes	30 685	30 562	29 643
Dorion-Rigaud	23 424	23 696	22 736
Blainville	13 185	12 467	11 825
Mont-Saint-Hilaire	11 875	12 446	10 984
Delson-Candiac	4 700	5 004	4 379
	<u>83 869</u>	<u>84 175</u>	<u>79 567</u>

6. METROPOLITAN TRANSIT ASSISTANCE AND RELATED EXPENDITURES

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

The amount of metropolitan transit assistance is calculated as follows:

- \$0.20 per passenger assessed using subway system turnstile readings totalling \$44 038 in 2006 (2005: \$43 610).
- \$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 \$12 411 in 2006 (2005: \$12 775).
- Gradual implementation of new assistance for the bus system with train feeder services: \$0.50 per passenger transferring to a train from a bus circuit with a feeder service at a commuter train station, estimated at \$0.371 (2005: zero).

Metropolitan transit assistance and related expenditures

	Budget 2006 - unaudited	2006	2005
Subway:			
- Société de transport de Montréal	43 300	44 038	43 610
Bus:			
- Société de transport de Montréal	5 766	5 617	6 010
- Réseau de transport de Longueuil	3 169	3 064	3 094
- Société de transport de Laval	1 822	1 817	1 820
- Intermunicipal transportation councils	1 612	1 371	1 326
- Conseil régional de transport de Lanaudière	61	412	409
- Municipalities	108	130	116
	<u>12 538</u>	<u>12 411</u>	<u>12 775</u>
Assistance for the bus system with train feeder services:			
- Société de transport de Montréal	172	187	
- Réseau de transport de Longueuil	22	20	
- Société de transport de Laval	36	43	
- Intermunicipal transportation councils	96	121	
	<u>326</u>	<u>371</u>	
Related expenditures	<u>200</u>	<u>207</u>	<u>215</u>
	<u>56 364</u>	<u>57 027</u>	<u>56 600</u>

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

December 31, 2006

(in thousands of dollars)

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

Under section 35, paragraph 1, subparagraph 9 of the Act, since 1999, the AMT has covered the cost of the discount offered for TRAM tickets to compensate, in whole or in part, the PTOAs for the reduced and intermediate rate tickets offered TRAM users. For the year 2006, the AMT set the ceiling for assistance for reduced and intermediate rate TRAM tickets at \$5 924 for TRAM zones 1-8 (2005: \$5 288).

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

	Budget 2006 - unaudited	2006	2005
Société de transport de Montréal	2 420	2 517	2 259
Réseau de transport de Longueuil	1 478	1 428	1 329
Société de transport de Laval	771	845	738
Intermunicipal transportation councils	598	785	675
Conseil régional de transport de Lanaudière	224	265	225
Municipalities	70	84	62
	<u>5 561</u>	<u>5 924</u>	<u>5 288</u>

8. RATE INTEGRATION ASSISTANCE

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

Rate integration assistance

	Budget 2006 - (unaudited)	2006	2005
Société de transport de Montréal	1 261	1 569	572
Réseau de transport de Longueuil	225	204	131
Société de transport de Laval	390	606	212
Intermunicipal transportation councils	27	140	22
Conseil régional de transport de Lanaudière	4		
	<u>1 907</u>	<u>2 519</u>	<u>937</u>

9. SPECIAL REMITTANCES TO PTOAS

Under section 63 of its incorporating legislation, where applicable, the AMT may transfer all or part of the operating surplus for a fiscal year to its Fixed Assets Fund, provided each transfer and the amount thereof are authorized by the Québec Minister of Transport. Further, under sections 45 and 49 of the Act, the AMT may grant financial assistance to a public transit operating authority to compensate, in whole or in part, the cost of the authority's contribution to the metropolitan bus transit system or the cost of the subway. In 2005, the AMT paid a special remittance of \$3 059 to PTOAs.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

9. SPECIAL REMITTANCE TO PTOAs

Special remittance to PTOAs

	Budget 2006 - (unaudited)	2006	2005
Société de transport de Montréal			2 562
Réseau de transport de Longueuil			223
Société de transport de Laval			135
Intermunicipal transportation councils			99
Conseil régional de transport de Lanaudière			31
Municipalities			9
			3 059

10. MUNICIPAL CONTRIBUTIONS

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

11. CAPITAL ASSETS

Capital assets

		2006		2005
	Cost	Accumulated depreciation	Net value	Net value
Commuter trains				
Train fleet	318 655	133 322	185 333	197 262
Deux-Montagnes				
- Land	15 035		15 035	15 035
- Infrastructures	80 438	44 087	36 351	40 370
Dorion-Rigaud				
- Land	746		746	746
- Infrastructures	42 145	27 374	14 771	16 438
Blainville				
- Land	3 168		3 168	2 353
- Infrastructures	44 341	5 204	39 137	15 805
Mont-Saint-Hilaire				
- Land	2 575		2 575	2 575
- Infrastructures	29 833	6 473	23 360	24 737
Delson-Candiac				
- Land	54		54	54
- Infrastructures	6 474	1 009	5 465	5 292
Amounts carried forward	543 464	217 469	325 995	320 667

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

December 31, 2006

(in thousands of dollars)

11. CAPITAL ASSETS (cont'd)
Capital assets (cont'd)

	2006		2005
	Cost	Accumulated depreciation	Net value
Amounts brought forward	543 464	217 469	325 995
Metropolitan transit facilities			
Land	20 273		20 273
Reserved traffic lanes	59 861	11 446	48 415
Incentive parking	14 850	4 336	10 514
Terminal building	35 213	9 571	25 642
Spare parts for commuter trains	2 545		2 545
Construction work in progress			
Subway extension towards Laval	693 633		693 633
Other projects	26 816		26 816
	<u>1 396 655</u>	<u>242 822</u>	<u>1 153 833</u>
			<u>991 034</u>

When the subway extension project towards Laval becomes operational in April 2007, it is planned that the AMT will transfer a significant portion of the related fixed assets to the Société de transport de Montréal (STM), thereby reducing the capital assets and net investment in capital assets by a sum equivalent to the cost of the capital assets transferred.

The \$11 523 decrease in other projects from 2005 to 2006 is due primarily to the transfer of work under way on the Taschereau reserved lane to capital assets.

12. SHORT-TERM LOAN

In keeping with Order-in-Council 1132-2006 of December 12, 2006, the Gouvernement du Québec gave the AMT authorization until December 31, 2008 to contract fluctuating or fixed rate loans from Canadian financial institutions or the Ministère des Finances, to a maximum, including financing charges, of \$478 400 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 \$69 303, including \$33 900 in interest.

Notes payable

	2006	2005
Bills payable, issued in 2000, at interest rates varying between 6.270% and 6.340% - Maturing in 2007	21 633	23 752
Bills payable, issued in 2003, at an interest rate of 4.513% - Maturing in 2008	4 009	5 884
Bills payable, issued in 1999, at an interest rate of 6.320% - Maturing in 2009	4 498	6 111
Bills payable, issued in 2000, 2001 and 2003, at interest rates varying between 4.283% and 5.958% - Maturing in 2010	<u>134 582</u>	<u>103 660</u>
Amounts carried forward	<u>164 722</u>	<u>139 407</u>

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

December 31, 2006

(in thousands of dollars)

13. NOTES PAYABLE (cont'd)
Notes payable (cont'd)

	2006	2005
Amounts brought forward	164 722	139 407
Bills payable, issued in 2005, at an interest rate of 4.079% - Maturing in 2011	26 055	27 067
Bills payable, issued in 2002, at interest rates varying between 5.385% and 5.945% - Maturing in 2012	56 596	61 847
Bills payable, issued in 2003, 2004 and 2005, at interest rates varying between 4.315% and 5.167% - Maturing in 2013	170 571	177 106
Bills payable, issued in 2004 and 2005, at interest rates varying between 4.169% and 5.267% - Maturing in 2014	155 452	161 113
Bills payable, issued in 2005, at interest rates varying between 4.339% and 4.783% - Maturing in 2015	74 360	56 270
Bills payable, issued in 2006, at interest rates varying between 4.531% and 4.960% - Maturing in 2016	110 213	
Bills payable, issued in 2006, at an interest rate of 4.435% - Maturing in 2017	22 420	
Bills payable, issued in 2002, at interest rates varying between 5.524% and 6.039% - Maturing in 2022	8 896	9 219
Bills payable, issued in 2004, at interest rates varying between 5.379% and 5.453% - Maturing in 2024	21 883	22 589
Bills payable, issued in 2005 and 2006, at interest rates varying between 4.602% and 5.261% - Maturing in 2025	26 309	11 663
Bill payable, issued in 2006, at an interest rate of 4.866% - Maturing in 2026	19 713	
	<u>857 190</u>	<u>666 281</u>

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

Annual reimbursement of capital and interest

	Assumed by the MTQ	Assumed by the AMT	Total
2007	93 439	16 331	109 770
2008	78 038	6 790	84 828
2009	74 934	6 789	81 723
2010	167 258	8 040	175 298
2011	75 894	9 308	85 202
2012 and thereafter	542 266	31 822	574 088
	<u>1 031 829</u>	<u>79 080</u>	<u>1 110 909</u>
Interest included in the amount of reimbursements above	(239 782)	(13 937)	(253 719)
	<u>792 047</u>	<u>65 143</u>	<u>857 190</u>

The \$792 047 assumed by the MTQ is recorded in the Fixed Assets Fund balance sheet at December 31, 2006 as Ministère des transports du Québec receivable.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

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

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

Operating Fund commitments

2007	59 795
2008	39 316
2009	30 496
2010	14 990
2011	1 547
2012	2 445
	148 589

Fixed Assets Fund commitments

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

Fixed Assets Fund commitments

2007	49 764
2008	609
	50 373

Capital assets projects under way include the subway extension to Laval. At December 31, 2006, the project's final cost was estimated at \$745 000—of which \$726 700 is subsidized 100% by the MTQ, \$693 633 had been realized and \$32 299 was included in the above-mentioned commitments.

Claims

In its normal course of business, the AMT is involved in various claims and lawsuits. Although the outcomes of the various files active on December 31, 2006 cannot be foreseen with any certainty, the AMT estimates that they should not have significant negative repercussions on its financial position and net results, given the provisions or insurance coverage related to these items.

15. COMPARATIVE FIGURES

Some 2005 figures were reclassified for consistency with the presentation adopted in 2006.

AGENCE MÉTROPOLITAINE DE TRANSPORT**AUDITORS' REPORT**

To the Board of Directors of the
Agence métropolitaine de transport

We have audited the balance sheets of the Operating Fund and the Fixed Assets Fund of the Agence métropolitaine de transport (AMT) as at December 31, 2006 and the statement of operations and surplus statement of the Operating Fund, the statement of operations and permanent financing required of the Fixed Assets Fund and the statement of net investments in capital assets for the year then ended. These financial statements are the responsibility of the agency's management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the agency as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles disclosed in Note 2.

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 23, 2007

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

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007			2006
	Current operations	Deposit Insurance Fund	Total	Total
REVENUES				
Fees, contributions and premiums	\$70 644 998	\$12 560 021	\$83 205 019	\$75 517 133
Interest	2 233 195	18 212 506	20 445 701	15 369 455
Other	1 913 753		1 913 753	2 430 454
Settlements and fines	1 524 819		1 524 819	2 735 707
	<u>76 316 765</u>	<u>30 772 527</u>	<u>107 089 292</u>	<u>96 052 749</u>
EXPENSES				
Salaries and fringe benefits	44 488 642	386 927	44 875 569	40 701 382
Occupancy expenses	4 708 313		4 708 313	4 085 265
Professional services	7 037 445		7 037 445	6 665 755
Supplies, documentation and maintenance	1 510 567		1 510 567	1 332 811
Travel, promotion and reception	1 682 312	25 219	1 707 531	1 226 472
Communications, information	994 502	259 792	1 254 294	775 560
Telecommunications	458 959		458 959	449 317
Contribution to the Bureau de décision et de révision en valeurs mobilières	2 125 000		2 125 000	1 362 589
Fees related to legislation	801 800		801 800	850 000
Other	2 368 207	15 056	2 383 263	2 073 446
Amortization of capital assets	1 883 838		1 883 838	1 881 623
Amortization of intangible assets	956 517		956 517	902 146
Amortization of start-up expenses	1 159 948		1 159 948	1 159 949
Administrative costs attributed to the Funds (Note 4)	<u>(886 435)</u>	<u>473 671</u>	<u>(412 764)</u>	<u>(372 177)</u>
	<u>69 289 615</u>	<u>1 160 665</u>	<u>70 450 280</u>	<u>63 094 138</u>
SURPLUS FOR THE YEAR BEFORE THE FOLLOWING ITEM (Note 3)				
	7 027 150	29 611 862	36 639 012	32 958 611
Used of Reserved Fund (Note 6)	<u>(1 056 354)</u>		<u>(1 056 354)</u>	<u>(1 002 257)</u>
SURPLUS FOR THE YEAR	<u>\$5 970 796</u>	<u>\$29 611 862</u>	<u>\$35 582 658</u>	<u>\$31 956 354</u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

CUMULATIVE SURPLUS STATEMENT
for the year ended March 31, 2007

	2007					2006
	Current operations			Deposit Insurance Fund	Total	Total
	Surplus	Contingency reserve	Reserved Fund	Unappropriated surplus		
SURPLUS, BEGINNING OF YEAR	\$15 169 998	\$33 529 869	\$13 204 981	\$344 336 279	\$406 241 127	\$374 284 773
Surplus for the year	5 970 796			29 611 862	35 582 658	31 956 354
Use of Reserved Fund (Note 6)	<u>1 056 354</u>		<u>(1 056 354)</u>			
SURPLUS, END OF YEAR	\$22 197 148	\$33 529 869	\$12 148 627	\$373 948 141	\$441 823 785	\$406 241 127

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

BALANCE SHEET

	As at March 31, 2007			As at March 31, 2006
	Current operations	Deposit Insurance Fund	Total	Total
ASSETS				
Current assets				
Cash on hand	\$1 720 624	\$1 743	\$1 722 367	\$3 506 485
Investments (Note 8)	65 832 157	373 999 631	439 831 788	403 646 362
Accounts receivable (Note 9)	15 966 868		15 966 868	14 827 563
Account receivable – Current operations		36 568		
Interest receivable	1 244 274	1 909 050	3 153 324	2 189 340
Prepaid expenses	924 131	922	925 053	504 592
	<u>85 688 054</u>	<u>375 947 914</u>	<u>461 599 400</u>	<u>424 674 342</u>
Accounts receivable (Note 9)	929 350		929 350	1 017 258
Capital assets (Note 10)	7 910 072		7 910 072	7 777 266
Intangible assets (Note 11)	1 248 276		1 248 276	1 673 126
Start-up costs (Note 12)	<u>2 126 572</u>		<u>2 126 572</u>	<u>3 286 520</u>
	<u>\$97 902 324</u>	<u>\$375 947 914</u>	<u>\$473 813 670</u>	<u>\$438 428 512</u>

AUTORITÉ DES MARCHÉS FINANCIERS

BALANCE SHEET (cont'd)

	As at March 31, 2007			As at March 31, 2006
	Current operations	Deposit Insurance Fund	Total	Total
LIABILITIES				
Current liabilities				
Expenses payable (Note 13)	\$10 593 761	\$482	\$10 594 243	\$10 636 645
Expense payable – Deposit Insurance Fund	36 568			
Refundable fees and contributions	301 835		301 835	827 015
Provision for vacation time, sick leave and severance pay (Note 14)	4 516 880		4 516 880	4 181 479
Deferred revenue	7 654 065	999 291	8 653 356	8 665 350
	<u>23 103 109</u>	<u>999 773</u>	<u>24 066 314</u>	<u>24 310 489</u>
Long-term portion of the provision for vacation time, sick leave and severance pay (Note 14)	6 923 571		6 923 571	6 876 896
	<u>30 026 680</u>	<u>999 773</u>	<u>30 989 885</u>	<u>31 187 385</u>
NET EQUITY				
Gouvernement du Québec contribution	-----	1 000 000	1 000 000	1 000 000
Cumulative surplus				
Cumulative surplus	22 197 148	373 948 141	396 145 289	359 506 277
Contingency reserve (Note 15)	33 529 869		33 529 869	33 529 869
Reserved Fund (Note 6)	12 148 627		12 148 627	13 204 981
	<u>67 875 644</u>	<u>373 948 141</u>	<u>441 823 785</u>	<u>406 241 127</u>
	<u>67 875 644</u>	<u>374 948 141</u>	<u>442 823 785</u>	<u>407 241 127</u>
	<u>\$97 902 324</u>	<u>\$375 947 914</u>	<u>\$473 813 670</u>	<u>\$438 428 512</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, Administration
Autorité des marchés financiers

AUTORITÉ DES MARCHÉS FINANCIERS

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007			2006
	Current operations	Deposit Insurance Fund	Total	Total
OPERATING ACTIVITIES				
Surplus for the year	\$5 970 796	\$29 611 862	\$35 582 658	\$31 956 354
Items not affecting cash flows				
Amortization of capital assets	1 883 838		1 883 838	1 881 623
Amortization of intangible assets	956 517		956 517	902 146
Amortization of start-up costs	1 159 948		1 159 948	1 159 949
Gain on sale of capital assets	(2 495)		(2 495)	(6 106)
	<u>9 968 604</u>	<u>29 611 862</u>	<u>39 580 466</u>	<u>35 893 966</u>
Change in non-cash items related to operations				
Accounts payable	(1 051 732)	335	(1 051 397)	(9 652 720)
Account payable – Deposit Insurance Fund	101 900			
Account payable – Current operations		(36 568)		
Interest receivable	(564 913)	(399 071)	(963 984)	(397 193)
Prepaid expenses	(420 982)	521	(420 461)	121 976
Expenses payable	(205 953)	(187 427)	(393 380)	5 539 000
Expenses payable – Current operations		(101 900)		
Expenses payable – Deposit Insurance Fund	36 568			
Refundable fees and contributions	(525 180)		(525 180)	351 414
Provision for vacation time, sick leave and severance pay	382 076		382 076	2 476 005
Deferred revenue	<u>556 539</u>	<u>(568 533)</u>	<u>(11 994)</u>	<u>2 525 412</u>
	<u>(1 691 677)</u>	<u>(1 292 643)</u>	<u>(2 984 320)</u>	<u>963 894</u>
Cash flows related to operating activities	<u>8 276 927</u>	<u>28 319 219</u>	<u>36 596 146</u>	<u>36 857 860</u>
INVESTMENT ACTIVITIES				
Acquisition of investments	(49 156 461)	(28 479 012)	(77 635 473)	(84 240 110)
Proceeds from the sale of investments	51 714 952		51 714 952	48 886 523
Acquisition of capital assets (Note 19)	(1 855 570)		(1 855 570)	(712 711)
Proceeds from the sale of capital assets	2 495		2 495	18 387
Acquisition of intangible assets (Note 19)	<u>(341 763)</u>		<u>(341 763)</u>	<u>(432 035)</u>
Cash flows related to investment activities	<u>363 653</u>	<u>(28 479 012)</u>	<u>(28 115 359)</u>	<u>(36 479 946)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>8 640 580</u>	<u>(159 793)</u>	<u>8 480 787</u>	<u>377 914</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3 505 044</u>	<u>258 279</u>	<u>3 763 323</u>	<u>3 385 409</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$12 145 624</u>	<u>\$98 486</u>	<u>\$12 244 110</u>	<u>\$3 763 323</u>

AUTORITÉ DES MARCHÉS FINANCIERS
STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2007

Closing cash and cash equivalents include:

	2007			2006
	Current operations	Deposit Insurance Fund	Total	Total
Cash	\$1 720 624	\$1 743	\$1 722 367	\$3 506 485
Investments	10 425 000	96 743	10 521 743	256 838
	<u>\$12 145 624</u>	<u>\$98 486</u>	<u>\$12 244 110</u>	<u>\$3 763 323</u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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 comprehensive 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 \$100 000;
- guarantee payment of deposits of money to the extent and in the manner prescribed in this Act and the regulations;
- manage a deposit insurance fund;
- 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

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

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 advance money to the Deposit Insurance Fund or guarantee the payment of any of its 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 21.

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 2007, the Authority collected contributions of \$7 598 913 (2006: \$8 288 436) and remitted \$7 589 712 (2006: \$8 295 573) to the Chambre de la sécurité financier and collected contributions of \$3 422 664 (2006: \$4 098 309) and remitted \$3 743 658 (2006: \$3 686 439) to the Chambre de l'assurance de dommages.

2. ACCOUNTING POLICIES

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

Investments

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

Capital assets

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

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

Intangible assets

Intangible assets are recorded at cost and amortized in accordance with the straight-line method and a 3-year service life.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)**Start-up costs**

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

Proceeds reporting*Proceeds from dues and premiums*

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

Proceeds from administrative sanctions

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

Proceeds other than dues, premiums and administrative sanctions

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

Provision for Deposit Insurance Fund losses

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

Pension plans

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

Cash and cash equivalents

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

3. RESULTS BY ACT

Under section 248 of the Act respecting the distribution of financial products and services and section 330.1 of the Securities Act, the amounts payable to the Authority under each of these pieces of legislation must be used to pay the costs related to their administration. During the fiscal year, in order to comply with the requirement to publish these results, the Authority developed a method for breaking down revenues and expenses per Act. Since the Authority's creation led to the different functions of former organizations being regrouped and integrated so as to offer consumers and industry players a single window, the results by Act disclosed in this note include estimates. However, they represent the most accurate information available to the Authority.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

3. RESULTS BY ACT (cont'd)

The results show that, over these two fiscal years, some of the surpluses generated under the Securities Act were used to cover expenses incurred under other Acts. Further work is needed to establish the results by Act for 2004-2005 and will be completed by the Authority in 2007-2008.

More than 70% of the revenues generated under the Securities Act are strongly influenced by the level of economic activity on financial markets and, in this context, to correct this volatility, the Act provides for the creation of assets in the form of a contingency reserve as disclosed in Note 15. Created using the surpluses generated under the Securities Act, this reserve could offset the consequences of an economic slowdown and represent a self-insurance policy.

The various initiatives under way will modify the current results by Act. The Authority presented the Government with different legislative amendments designed to absorb a portion of the deficits posted in these financial statements.

2007					
	Securities Act	Act respecting the distribution of financial products and services	Deposit Insurance Act	Other acts	Total
Revenues	\$51 415 797 ¹	\$12 367 612	\$30 772 527	\$12 533 356	\$107 089 292
Expenses	31 424 469	22 091 566	1 160 665	15 773 580	70 450 280
Surplus (deficit)	<u>\$19 991 328</u>	<u>\$(9 723 954)</u>	<u>\$29 611 862</u>	<u>\$(3 240 224)</u>	<u>\$36 639 012</u>
2006					
	Securities Act	Act respecting the distribution of financial products and services	Deposit Insurance Act	Other acts	Total
Revenues	\$38 352 963 ¹	\$13 771 757	\$32 867 924	\$11 060 105	\$96 052 749
Expenses	26 975 738	20 465 839	1 234 177	14 418 384	63 094 138
Surplus (deficit)	<u>\$11 377 225</u>	<u>\$(6 694 082)</u>	<u>\$31 633 747</u>	<u>\$(3 358 279)</u>	<u>\$32 958 611</u>

1 Section 271.12 of the Regulation respecting securities provided for a 15% reduction in fees payable which ended on February 28, 2006. (The reduction granted over the year ended March 31, 2006 totalled \$5 716 948).

4. 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 Authority charged them \$473 671 (2006: \$516 890) and \$412 764 (2006: \$372 177) respectively for the use of these resources. These operations were concluded in the normal course of activity and measured at exchange value, in keeping with the agreement between the parties. At March 31, 2007, the Deposit Insurance Fund had an account receivable of \$104 289 (2006: it owed \$36 930) and the Fonds d'indemnisation des services financiers owed \$202 764 (2006: \$260 349) for these services.

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. DEPOSIT INSURANCE FUND**

In keeping with section 52.2 of the Deposit Insurance Act, the net accrued benefits of the Deposit Insurance Fund break down as:

	2007	2006
Balance, beginning of year	\$344 336 279	\$312 702 532
Surplus for the year	<u>29 611 862</u>	<u>31 633 747</u>
Balance, end of year	<u>\$373 948 141</u>	<u>\$344 336 279</u>

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:

	2007	2006
Balance, beginning of year	<u>\$13 204 981</u>	<u>\$14 207 238</u>
Used of Reserved Fund:		
Investment income	648 685	433 823
Proceeds from regulations and fines	39 368	
Payment of contributions	(1 675 546)	(1 321 110)
Salaries and fringe benefits	(66 062)	(110 738)
Other	<u>(2 799)</u>	<u>(4 232)</u>
	<u>(1 056 354)</u>	<u>(1 002 257)</u>
Balance, end of year	<u>\$12 148 627</u>	<u>\$13 204 981</u>

7. FINANCIAL INSTRUMENTS

The market value of participation deposit units in funds entrusted to the Caisse de dépôt et placement du Québec was \$400 814 238 at March 31, 2007 (2006: \$370 195 770). The market value of term deposits entrusted to the Caisse de dépôt et placement du Québec was \$15 963 629 at March 31, 2007 (2006: \$16 861 372). The market value of bankers' acceptances and bearers' term notes was \$13 671 909 and \$24 428 052 respectively at March 31, 2007 (2006: \$15 315 553 and \$13 187 479 for bankers' acceptances and commercial papers).

The Caisse de dépôt et placement du Québec determines the fair value of the amounts entrusted to it. The fair value of bankers' acceptances and bearer term notes entrusted to other institutions was assessed based on the buying exchange rate. The fair value of the other financial instruments is equivalent to their book value, given that they mature in the near future.

AUTORITÉ DES MARCHÉS FINANCIERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
8. INVESTMENTS

	Current operations	Deposit Insurance Fund	March 31, 2007 Total	March 31, 2006 Total
Funds entrusted to the Caisse de dépôt et placement du Québec				
Demand deposits	\$552	\$96 743	\$97 295	\$731 220
Term deposits	15 966 300		15 966 300	16 905 000
Participation deposits	12 663 668	373 902 888	386 566 556	357 834 888
	<u>28 630 520</u>	<u>373 999 631</u>	<u>402 630 151</u>	<u>375 471 108</u>
Funds entrusted to other institutions				
Bankers' acceptances	13 625 000		13 625 000	15 166 455
Bearer term notes	23 576 637		23 576 637	12 999 999
Other				8 800
	<u>\$65 832 157</u>	<u>\$373 999 631</u>	<u>\$439 831 788</u>	<u>\$403 646 362</u>

Demand deposits, term deposits, bankers' acceptances and bearers' term notes bear interest at rates varying between 4.21% and 4.71% and mature on different dates up to February 2008.

9. ACCOUNTS RECEIVABLE

	Current operations	Deposit Insurance Fund	March 31, 2007 Total	March 31, 2006 Total
Short-term portion				
Fees, contributions and premiums	\$15 438 562		\$15 438 562	\$14 347 836
Fonds d'indemnisation des services financiers	293 437		293 437	209 895
Other				21 148
Gouvernement du Québec receivable				
Conseil du trésor	227 608		227 608	227 608
Ministère du Revenu	7 261		7 261	
Registraire des entreprises				21 076
	<u>15 966 868</u>		<u>15 966 868</u>	<u>14 827 563</u>
Long-term portion				
Other	278 700		278 700	139 000
Gouvernement du Québec receivable				
Conseil du trésor	650 650		650 650	878 258
	<u>929 350</u>		<u>929 350</u>	<u>1 017 258</u>
	<u>\$16 896 218</u>		<u>\$16 896 218</u>	<u>\$15 844 821</u>

AUTORITÉ DES MARCHÉS FINANCIERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
10. FIXED ASSETS

	March 31, 2007		March 31, 2006
	Cost	Accumulated depreciation	Net value
Leasehold improvements – equipment	\$418 824	\$258 842	\$159 982
Leasehold improvements – layout	7 883 495	2 488 187	5 395 308
Office furniture and equipment	6 434 201	4 590 047	1 844 154
Computer hardware	3 860 852	3 350 224	510 628
	<u>\$18 597 372</u>	<u>\$10 687 300</u>	<u>\$7 910 072</u>
			<u>\$7 777 266</u>

11. INTANGIBLE ASSETS

	March 31, 2007		March 31, 2006
	Cost	Accumulated depreciation	Net value
Software	\$2 084 669	\$1 924 077	\$160 592
Computer systems development	4 033 285	2 945 601	1 087 684
	<u>\$6 117 954</u>	<u>\$4 869 678</u>	<u>\$1 248 276</u>
			<u>\$1 673 126</u>

12. START-UP COSTS

	March 31, 2007		March 31, 2006
	Cost	Accumulated depreciation	Net value
Start-up costs	<u>\$5 799 742</u>	<u>\$3 673 170</u>	<u>\$2 126 572</u>
			<u>\$3 286 520</u>

13. EXPENSES PAYABLE

	Current operations	Deposit Insurance Fund	March 31, 2007	March 31, 2006
Accounts payable and accrued liabilities	\$9 737 886	\$482	\$9 738 368	\$9 784 615
Owing to the Gouvernement du Québec				
Ministère des Finances	854 492		854 492	852 030
Ministère du Revenu	1 383		1 383	
	<u>\$10 593 761</u>	<u>\$482</u>	<u>\$10 594 243</u>	<u>\$10 636 645</u>

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

14. FUTURE FRINGE BENEFITS

Pension plans

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

The Authority's contributions posted to the results of the fiscal year totalled \$1 989 401 (2006: \$1 668 057). Its obligations towards these government plans are restricted to its employer contributions.

Provision for vacation time, sick leave and severance pay

	March 31, 2007	March 31, 2006
Provision for vacation time		
Balance, beginning of year	\$3 924 225	\$3 476 976
Expenditure for the year	2 986 984	2 826 574
Benefits paid during the year	(2 599 887)	(2 379 325)
Balance, end of year	4 311 322	3 924 225
Provision for sick leave		
Balance, beginning of year	5 538 322	5 105 394
Expenditure for the year	1 267 651	1 291 084
Benefits paid during the year	(885 794)	(858 156)
Balance, end of year	5 920 179	5 538 322
Provision for severance pay		
Balance, beginning of year	1 595 828	
Expenditure for the year	295 353	1 595 828
Benefits paid during the year	(682 231)	
Balance, end of year	1 208 950	1 595 828
Provision for vacation time, sick leave and severance pay	11 440 451	11 058 375
Long-term portion	(6 923 571)	(6 876 896)
	<u>\$4 516 880</u>	<u>\$4 181 479</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 changes in revenues or expenses resulting from this statute.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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, 2006 by the Deposit Insurance Fund totalled \$68.5 billion (2005: \$66.4 billion), \$11.6 billion (2005: \$11.3 billion) of which was held by trust companies or holding companies incorporated under federal legislation and for which no premium is payable.

Under an agreement with the Canada Insurance Deposit Corporation, the latter will compensate the Autorité des marchés financiers and not hold it 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.

17. COMMITMENTS

The Authority is committed, under rental contracts ending on various dates until 2019, to paying office rental expenses of \$50 094 317. The minimum payments required for the next five years totalled \$4 825 658 in 2007-2008, \$4 896 051 in 2008-2009, \$4 949 996 in 2009-2010, \$4 967 403 in 2010-2011, \$4 762 021 in 2011-2012 and \$25 693 188 for fiscal 2012-2013 and thereafter.

Commitments related to contributions to the Investor education and governance promotion fund are \$1 119 447 for fiscal 2007-2008 and \$289 872 for fiscal 2008-2009.

18. CONTINGENCIES

The Authority is currently faced with various lawsuits for damages. Since it is not possible to evaluate the amount the Authority might have 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.

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

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

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

CDS and the CSC's main member commissions agree to share equally discrepancies between the deposit system's real operating costs (expenses) and the budgeted operating costs. As one of these main member commissions, the Authority is committed to this agreement but requires Government authorization to confirm it.

The OSC holds \$16.2 million in trust. These monies comes from cumulative surpluses and discrepancies compared to the expenses recorded by Canada-wide deposit systems as at October 31, 2006 and interest earned on these amounts as at March 31, 2007. The CSC's main member commissions agreed that they would use these amounts solely to implement measures that would benefit Canada-wide deposit system users, notably system improvement, or to offset a deficit in terms of the revenue required to pay the expenses approved in the annual operating plans. These agreements run until May 2010.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

19. ADDITIONAL CASH FLOW INFORMATION

Over the fiscal year, capital assets totalling \$2 016 644 (2006: \$424 658) were acquired, \$259 044 (2006: \$97 970) of which are included in accounts payable at March 31, 2007. Outpayments totalling \$1 855 570 (2006: \$712 711) were made for the purchase of capital assets. During the fiscal year, intangible assets were also acquired at a total cost of \$531 667 (2006: \$285 434), \$189 904 \$ (2006: 0) of which are included in accounts payable at March 31, 2007. Outpayments totalling \$341 763 (2006: \$432 035) were made for the purchase of tangible assets.

20. 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.

21. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS

Statement of operations

for the year ended March 31, 2007

	2007	2006
Revenues		
Contributions	\$4 398 757	\$2 412 164
Interest	239 199	153 944
Subrogation revenue	1 331 648	160 521
	<u>5 969 604</u>	<u>2 726 629</u>
Expenses		
Compensation (Note I)	20 566 586	16 123 246
Salaries and fringe benefits	706 034	677 172
Travel expenses	7 291	4 068
Professional services	299 241	175 767
Administrative expenses (Note C)	412 764	372 177
Other	20 394	6 956
	<u>22 012 310</u>	<u>17 359 386</u>
Deficiency of revenues over expenses	<u><u>\$(16 042 706)</u></u>	<u><u>\$(14 632 757)</u></u>

Statement of changes in fund balances

for the year ended March 31, 2007

	2007	2006
Balance, beginning of year	\$(18 450 194)	\$(3 817 437)
Deficiency of revenues over expenses	<u>(16 042 706)</u>	<u>(14 632 757)</u>
Balance, end of year (Note D)	<u><u>\$(34 492 900)</u></u>	<u><u>\$(18 450 194)</u></u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

March 31, 2007

	March 31, 2007	March 31, 2006
ASSETS		
Current assets		
Cash on hands	\$2 005	\$1 171
Investments (Note F)	8 214 000	4 947 000
Accounts receivable (Note G)	1 599 510	351 606
Prepaid expenses	8 412	8 502
	<u>9 823 927</u>	<u>5 308 279</u>
Notes receivable in subrogation, interest-free, maturing in 2013	<u>23 352</u>	<u>41 293</u>
	<u><u>\$9 847 279</u></u>	<u><u>\$5 349 572</u></u>
LIABILITIES		
Current liabilities		
Accounts payable (Note H)	\$352 446	\$287 341
Provision for compensation (Note I)	40 771 000	21 116 000
Deferred revenue	<u>3 216 733</u>	<u>2 396 425</u>
	<u>44 340 179</u>	<u>23 799 766</u>
FUND BALANCES (Note D)	<u>(34 492 900)</u>	<u>(18 450 194)</u>
	<u><u>\$9 847 279</u></u>	<u><u>\$5 349 572</u></u>

CONTINGENCIES (Note J)

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, Administration
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 National Assembly. This fund replaced corresponding funds created under the Act respecting market intermediaries 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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

A - GOVERNING STATUTES AND NATURE OF OPERATIONS (cont'd)

On September 21, 2005, the Québec government authorized the Authority to incorporate into the Fonds d'indemnisation des services financiers the amounts from the Fonds d'indemnisation en assurance de personnes, Fonds d'indemnisation en assurance de dommages and Fonds d'indemnisation des planificateurs financiers. Until that time, the Authority managed these three heritages resulting from the former Act respecting market intermediaries separately. Compensation resulting from fraud committed before October 1999 was paid from these heritages in keeping with their respective jurisdictions. Henceforth, all compensation is paid from the Fonds d'indemnisation des services financiers regardless of the year the fraud occurred.

The 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 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 - ACCOUNTING POLICIES

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

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 minus any lasting loss in value.

Proceeds reporting

Proceeds from dues

Proceeds from dues are recorded based on the period they cover. Amounts invoiced for a period exceeding fiscal year-end are posted as deferred income.

Subrogation revenue

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

C - ADMINISTRATIVE EXPENSES

The Autorité des marchés financiers made human resources, capital assets and office space available to the Fonds d'indemnisation des services financiers. During the fiscal year, the Autorité des marchés financiers charged \$412 764 (2006: \$372 177) for the use of these resources. These operations were concluded in the normal course of activities and measured at exchange value, in keeping with the agreement between the parties. At March 31, 2007, the Fonds d'indemnisation des services financiers owed \$202 764 (2006: \$260 349) for these services.

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**21. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)****D - FUND BALANCE**

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

E - 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.

F - INVESTMENTS

	March 31, 2007	March 31, 2006
Term deposits, bearing interest at rate of 3.85%, maturing in March 2008	<u>\$8 214 000</u>	<u>\$4 947 000</u>

G - ACCOUNTS RECEIVABLE

	March 31, 2007	March 31, 2006
Contributions receivable	\$280 621	\$326 344
Other	1 317 541	25 262
Accrued interest	1 348	
	<u>\$1 599 510</u>	<u>\$351 606</u>

H - EXPENSES PAYABLE

	March 31, 2007	March 31, 2006
Supplier accounts and accrued expenses	\$59 009	\$77 446
Autorité des marchés financiers (current operations)	293 437	209 895
	<u>\$352 446</u>	<u>\$287 341</u>

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007**21. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)****I - COMPENSATION AND PROVISION FOR COMPENSATION**

The amount of the provision for compensation for reported and unreported disasters, established by actuaries mandated by the Authority, reflects known facts and the interpretation of circumstances based on experience in similar files, historical disaster settlement trends, settled disasters, the number of unsettled disasters and disaster frequency.

The following table summarizes the change in the provision for compensation:

	March 31, 2007	March 31, 2006
Balance, beginning of year	\$21 116 000	\$9 509 211
Expenses for the fiscal year	20 566 586	16 123 246
Claims settled during the year	<u>(911 586)</u>	<u>(4 516 457)</u>
Balance, end of year	<u><u>\$40 771 000</u></u>	<u><u>\$21 116 000</u></u>

J - CONTINGENCIES

The Fonds d'indemnisation des services financiers, which has been replaced by the Authority, is involved in various lawsuits concerning decisions to refuse to pay compensation in 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**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and results in reliable financial information. 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. It has pursued its efforts to determine the management and rate-setting mechanisms linked to the situation disclosed in Note 3 of the financial statements.

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

Jean St-Gelais
President-Chief Executive Officer

Linda Levasseur
Director General, Administration

Québec, June 8, 2007

AUTORITÉ DES MARCHÉS 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 March 31, 2007 and the statements of operations, cumulative surplus and cash flows of Autorité des marchés financiers and the statements of operations and changes in fund balances of Fonds d'indemnisation des services financiers for the year ended March 31, 2007. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Autorité des marchés financiers and the Fonds d'indemnisation des services financiers as at and March 31, 2007 and the results of their operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 8, 2007

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

STATEMENT OF OPERATIONS
 for the year ended March 31, 2007

	2007		2006
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
REVENUES			
Gouvernement du Québec subsidies			
Operations	\$47 135 665		\$47 135 665
Private archives	1 004 300		1 004 300
Cinémathèque	550 000		550 000
Other subsidies	40 000		40 000
Interest on long-term debt		\$8 497 519	8 497 519
Amortization of deferred subsidies (Note 14)	6 506	15 896 924	15 903 430
Ministère de l'Emploi et de la Solidarité sociale financial contribution (Note 22)	20 346		20 346
Ville de Montréal financial contribution (Note 8)	7 182 616		7 182 616
Federal Government financial contribution			
Sponsorship income	35 000		35 000
Services received under service agreements (Note 15)	335 064		335 064
Donations to the Heritage Collection and other	771 637		771 637
Sales of goods and services	2 549 553		2 549 553
Investment income	719 577	10 674	730 251
	<u>60 350 264</u>	<u>24 405 117</u>	<u>84 755 381</u>
EXPENSES			
Salaries and fringe benefits	34 897 529	182 732	35 080 261
Professional, administrative and other services	10 439 513	700 917	11 140 430
Rent	4 619 034		4 619 034
Transportation and communications	1 819 465	1 228	1 820 693
Supplies	1 900 717	1 219 784	3 120 501
Subsidies granted to private archives	1 004 300		1 004 300
Subsidies granted to the Cinémathèque	550 000		550 000
Loss on sale of assets	2 332	330 619	332 951
Financial expenses (Note 16)	417 796	9 325 371	9 743 167
Doubtful accounts	1 691		1 691
Amortization of sale assets	1 028 772	12 644 466	13 673 238
Amortization of the participation in a television production	75 000		75 000
	<u>56 756 149</u>	<u>24 405 117</u>	<u>81 161 266</u>
Heritage Collection (Note 4)			
Donations	771 137		771 137
Purchases	859 385		859 385
	<u>58 386 671</u>	<u>24 405 117</u>	<u>82 791 788</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM	1 963 593		1 963 593
Gain resulting from tax recovery (Note 17)	1 237 750		1 237 750
EXCESS OF REVENUES OVER EXPENSES	<u>\$3 201 343</u>		<u>\$3 201 343</u>
			<u>\$3 417 698</u>

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

CHANGES IN NET ASSETS STATEMENT
for the year ended March 31, 2007

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
NET ASSETS, OPENING BALANCE	\$12 590 484	\$12 326 171	\$24 916 655	\$21 498 957
Excess of revenues over expenses	3 201 343		3 201 343	3 417 698
NET ASSETS, CLOSING BALANCE	<u>\$15 791 827</u>	<u>\$12 326 171</u>	<u>\$28 117 998</u>	<u>\$24 916 655</u>
Net assets invested in capital assets	\$9 622 801	\$12 326 171	\$21 948 972	\$15 257 651
Net assets used for a television production under an in-house appropriation				75 000
Unappropriated net assets	<u>6 169 026</u>		<u>6 169 026</u>	<u>9 584 004</u>
NET ASSETS, CLOSING BALANCE	<u>\$15 791 827</u>	<u>\$12 326 171</u>	<u>\$28 117 998</u>	<u>\$24 916 655</u>

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
ASSETS				
Current assets				
Cash and cash equivalents (Note 5)	\$20 731 653	\$1 062 398	\$21 794 051	\$23 278 753
Gouvernement du Québec subsidies receivable (Note 6)	1 291 900	23 871 280	25 163 180	15 671 384
Accounts receivable (Note 7)	4 249 666		4 249 666	4 519 372
Interfund accounts receivable, interest-free, no terms of repayment	649 690			
Prepaid assets	1 351 036	395 167	1 746 203	993 844
	<u>28 273 945</u>	<u>25 328 845</u>	<u>52 953 100</u>	<u>44 463 353</u>
Long-term assets				
Gouvernement du Québec subsidies receivable (Note 6)		171 010 233	171 010 233	180 158 781
Capital assets (Note 9)	9 622 801	159 183 104	168 805 905	173 876 250
Deferred discount and long-term debt issuing charges	60 982	1 037 373	1 098 355	1 187 680
Participation in a television production (Note 10)				75 000
	<u>\$37 957 728</u>	<u>\$356 559 555</u>	<u>\$393 867 593</u>	<u>\$399 761 064</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2007

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$6 836 836	\$2 604 261	\$9 441 097	\$14 716 111
Short-term borrowings (Note 11)		12 081 980	12 081 980	11 981 280
Accrued interest payable	194 498	3 129 059	3 323 557	3 352 455
Provision for vacation time	2 952 542	23 661	2 976 203	2 573 359
Prepaid revenues	27 823		27 823	
Interfund accounts receivable, interest-free, no terms of repayment		649 690		
Instalments on long-term debt (Note 12)	317 617	20 789 405	21 107 022	10 200 630
	10 329 316	39 278 056	48 957 682	42 823 835
Long-term liabilities				
Provision for sick leave (Note 13)	3 926 662	3 571	3 930 233	3 698 927
Deferred revenue	167 115		167 115	144 000
Deferred Gouvernement du Québec subsidies (Note 14)	120 000	149 958 553	150 078 553	154 242 630
Long-term debt (Note 12)	7 622 808	154 993 204	162 616 012	173 935 017
	22 165 901	344 233 384	365 749 595	374 844 409
NET ASSETS				
	15 791 827	12 326 171	28 117 998	24 916 655
	<u>\$37 957 728</u>	<u>\$356 559 555</u>	<u>\$393 867 593</u>	<u>\$399 761 064</u>

COMMITMENTS (Note 19)**CONTINGENCIES** (Note 20)

The notes are an integral part of these financial statements.

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

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007		2006
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
OPERATING ACTIVITIES			
Excess of revenues over expenses	\$3 201 343		\$3 201 343
Items not affecting cash flows:			
Loss on sale of assets	2 332	\$330 619	332 951
Amortization of capital assets and participation in a television production	1 103 772	12 644 466	13 748 238
Amortization of deferred subsidies	(6 506)	(15 896 924)	(15 903 430)
Amortization of deferred discount and long-term debt issuing charges	2 541	155 300	157 841
	4 303 482	(2 766 539)	1 536 943
Change in non-cash elements			
Accounts receivable	98 873	170 833	269 706
Subsidies receivable	854 800	10 541 305	11 396 105
Prepaid expenses	(778 229)	25 870	(752 359)
Accounts payable and accrued liabilities	(675 877)	(1 966 897)	(2 642 774)
Accrued interest payable	194 498	(223 396)	(28 898)
Provision for vacation time	406 958	(4 114)	402 844
Provision for sick leave	230 192	1 114	231 306
Deferred revenue	23 115		23 115
Prepaid revenues	27 823		27 823
	4 685 635	5 778 176	10 463 811
			(523 226)
INVESTMENT ACTIVITIES (note 21)			
Purchase of assets	(360 853)	(11 207 229)	(11 568 082)
			(14 379 882)
FINANCING ACTIVITIES			
(Decrease) increase in short-term borrowings		100 700	100 700
Increase in long-term debt		9 788 017	9 788 017
Long-term debt repayment		(10 200 630)	(10 200 630)
Increase in deferred discount and long-term debt issuing charges		(68 517)	(68 517)
		(380 430)	(380 430)
			18 924 050
Increase (decrease) in cash and cash equivalents	4 324 782	(5 809 483)	(1 484 701)
			4 020 942
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18 083 585	5 195 167	23 278 752
			19 257 811
Change in interfund receivables	(1 676 714)	1 676 714	
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	<u>\$20 731 653</u>	<u>\$1 062 398</u>	<u>\$21 794 051</u>
			<u>\$23 278 753</u>

See Note 21 for further cash flow information.

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION ET MISSION

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

The Bibliothèque et Archives nationales du Québec's mission is also to guide, support and advise public bodies on the management of their documents, ensure the preservation of public archives, facilitate access to them and foster their dissemination. It is also responsible for promoting the preservation and accessibility of private archives.

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

2. PURPOSE OF THE FUNDS

The Operating Fund discloses the Bibliothèque et Archives nationales du Québec's current operations, assets, liabilities, revenues and parking lot operation expenses.

The Fund for activities funded through specific borrowings authorized by the government presents the assets, liabilities and operations related to government asset maintenance programs, assets, liabilities and operations that are pre-requisite and necessary to open the Grande Bibliothèque to the public.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

REVENUE REPORTING

Subsidies

The Bibliothèque et Archives nationales du Québec uses the deferral method to record subsidies. Subsidies are posted when received or receivable if the amount 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 incurred.

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

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

Sale of goods and services

Revenues from dispensing services and sales are posted when the following conditions have been met:

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

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. ACCOUNTING POLICIES (cont'd)**REVENUE REPORTING (cont'd)****Investment income**

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

Collections

Library documents are intended for loan or regular consultation and are capital assets. Given their specific nature, heritage collection documents, described in Note 4, are not included under capital assets and 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 Commission or the Conseil national d'évaluation des archives, are also charged to operations for the current fiscal year. Donations not subject to an expert opinion and heritage documents acquired by legal deposit and donations without receipts are not recorded in the financial statements due to the difficulty determining their fair value.

Short-term investments

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

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.

Capital assets

Capital assets are recorded at cost. Works of art and property are not amortized. Other capital assets are amortized in accordance with the straight-line method over their estimated service life based on the date they were used.

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

The Bibliothèque et Archives nationales du Québec regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows they are expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimating future cash flows and determining their fair value requires exercising professional judgement and may vary from time to time.

Pension plans

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

Cash and cash equivalents

It is the Bibliothèque et Archives nationales du Québec's policy to present bank balances and short-term investments maturing within three months of their acquisition date as cash and cash equivalents.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. HERITAGE COLLECTION

The Bibliothèque et Archives nationales du Québec heritage collection comprises the following categories of documents: general collections of books, journals and reviews, including all documents published in Québec received since 1968 by legal deposit and documents published in Québec since 1764, foreign documents related to Québec and foreign documents with heritage value, these latter three categories having been acquired through purchases, donations or exchanges; special collections, so designated to reflect their rarity, their material support or format, notably including rare and old books, prints, artists' books, soundtracks, posters, performance programs, postcards, sheet music and maps; electronic publications. Finally, since February 2006, the heritage collection is also enriched by cinematographic and television documents submitted for legal deposit.

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

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

5. CASH AND CASH EQUIVALENTS

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
Cash on hand	\$12 764 053	\$1 062 398	\$13 826 451	\$5 351 203
Short-term investments maturing within three months of their acquisition date	7 967 600		7 967 600	17 927 550
	<u>\$20 731 653</u>	<u>\$1 062 398</u>	<u>\$21 794 051</u>	<u>\$23 278 753</u>

Short-term investments comprise commercial papers. At March 31, 2007, the bank rate was 99.595 (2006: 99.508 to 99.817). The short-term investment matures in 11 days.

6. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

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

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**7. ACCOUNTS RECEIVABLE**

	2007		2006
	General Fund	Fund for activities funded through specific borrowings	Total
Ville de Montréal	\$1 975 380		\$1 390 083
Secrétariat du Conseil du trésor	1 171 346		2 100 845
Other accounts	1 102 940		1 028 444
	<u>\$4 249 666</u>		<u>\$4 519 372</u>

8. VILLE DE MONTRÉAL FINANCIAL CONTRIBUTION

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

The Ville de Montréal will make a financial contribution of \$7 million indexed annually to Bibliothèque et Archives nationales du Québec operations. This agreement runs five years. For the fiscal year ending March 31, 2007 a prorated amount of \$7 182 616 (\$6 775 039 in 2006) was calculated and recorded as the Ville de Montréal's financial contribution.

9. ASSETS

	2007		
	GENERAL FUND		
	Service life	Cost	Accumulated depreciation
Capital assets			
Land			
Property improvements	10 years	\$1 536	\$267
Building	40 years	70 884	4 272
Building improvements	20 years	48 314	4 684
Parking	40 years	7 750 010	319 471
Office furniture and equipment	10 years	1 330 615	681 352
Data processing and telecommunication equipment and software	3 to 10 years	1 919 219	1 231 461
Other equipment	5 years	757 778	291 217
Works of art			
Rolling stock	5 years	2 354	1 117
Library documents	3 to 10 years	176 377	51 111
Bookbinding costs	3 to 10 years		
Sub-total		<u>12 057 087</u>	<u>2 584 952</u>
Intangible assets			
Software programs developed	5 years	<u>289 851</u>	<u>139 185</u>
Total		<u>\$12 346 938</u>	<u>\$2 724 137</u>

2007				2006
FUND FOR ACTIVITIES FUNDED THROUGH SPECIFIC BORROWINGS				
Net value	Cost	Accumulated depreciation	Net value	Net value
	\$10 592 863		\$10 592 863	\$10 592 863
\$1 269	6 325	\$2 020	4 305	6 361
66 612	92 180 320	5 670 246	86 510 074	89 376 589
43 630	598 969	43 797	555 172	339 720
7 430 539				7 534 350
649 263	6 331 594	1 772 502	4 559 092	5 846 382
687 758	8 158 564	3 907 112	4 251 452	5 539 462
466 561	2 439 831	949 888	1 489 943	2 369 149
	291 250		291 250	291 250
1 237	32 484	13 901	18 583	26 706
125 266	51 917 603	10 298 215	41 619 388	43 216 469
	2 568 196	404 567	2 163 629	2 037 023
9 472 135	175 117 999	23 062 248	152 055 751	167 176 324
150 666	10 425 330	3 297 977	7 127 353	6 699 926
<u>\$9 622 801</u>	<u>\$185 543 329</u>	<u>\$26 360 225</u>	<u>\$159 183 104</u>	<u>\$173 876 250</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. ASSETS (cont'd)****Total assets**

	2007		2006	
	Cost	Accumulated depreciation	Net value	Net value
Capital assets	\$187 175 086	\$25 647 200	\$161 527 886	\$167 176 324
Intangible assets	10 715 181	3 437 162	7 278 019	6 699 926
Total	\$197 890 267	29 084 362	\$ 168 805 905	\$ 173 876 250

10. PARTICIPATION IN A TELEVISION PRODUCTION

The Bibliothèque et Archives nationales participates with Télé-Québec in a sponsorship project related to a television production on the Grand Bibliothèque. The amount for this participation is \$150 000 and covers two episodes. The cost of this participation will be amortized according to the number of broadcasts planned by episode. Both Episode 1 and episode 2 have been broadcast three times, thereby resulting in cumulative amortization of \$150 000.

11. SHORT-TERM BORROWINGS

The Bibliothèque et Archives nationales borrows the amounts required to start up its operations in the Grande Bibliothèque from the Gouvernement du Québec's Financing Fund. The maximum authorized by the Gouvernement du Québec for short-term borrowings for this purpose is \$16 715 500 (2006: \$12 700 000). The Bibliothèque et Archives nationales du Québec is also authorized to contract short-term borrowings for the maintenance of its assets of up to \$15 352 000 (2006: \$7 998 695). The Gouvernement du Québec committed to paying the Bibliothèque et Archives nationales du Québec the amounts needed to supplement payment of its obligations should it not be able to meet them for one of its short-term borrowings. Amounts used bear interest at the average bank acceptance rate plus 0.3%. At March 31, 2007, the interest rate on short-term borrowing was 4.64714% (March 31, 2006: 4.17143%) and the borrowing balance was:

	2007	2006
Fund for activities funded through specific borrowings		
Start-up of the Grande Bibliothèque operations		
Land, construction of building and acquisition of equipment and furniture	\$251 529	
Computer and telecommunications development	11 720 152	\$9 212 897
Asset maintenance	110 299	2 768 383
	\$12 081 980	\$11 981 280

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. LONG-TERM DEBT

	2007	2006
Borrowings on a note from the Financing Fund of the Gouvernement du Québec:		
Fund for activities funded through specific borrowings		
6.5% (effective rate of 6.602%), repayable in annual instalments of \$685 916 until October 1, 2006 and a final instalment of \$10 288 740 on October 1, 2007	\$10 288 740	\$10 974 656
6.5% (effective rate of 6.602%), repayable in annual instalments of \$26 593 until October 1, 2006 and a final instalment of \$132 967 on October 1, 2007	132 967	159 560
6.296% (effective rate of 6.392%), repayable in annual instalments of \$27 036 until June 28, 2009 and a final instalment of \$189 251 on June 28, 2010	270 359	297 395
5.169% (effective rate of 5,231%), repayable in annual instalments of \$69 075 until October 1, 2013	483 526	552 601
4.932% (effective rate of 4,991%), repayable in annual instalments of \$3 524 673 until October 1, 2013	24 672 709	28 197 382
4.816% (effective rate of 4,870%), repayable in annual instalments of \$43 404 until December 1, 2014 and an instalment of \$260 423 on December 1, 2015	607 653	651 057
4.411% (effective rate of 4,456%), repayable in annual instalments of \$28 164 until May 14, 2016 and a final instalment of \$140 819 on May 14, 2017	422 457	
4.411% (effective rate of 4,457%), repayable in annual instalments of \$851 414 until May 14, 2017	9 365 559	
4.816% (effective rate of 4,869%), repayable in annual instalments of \$1 465 234 until December 1, 2015	13 187 110	14 652 344
4.816% (effective rate of 4,870%), repayable in annual instalments of \$2 570 775 until December 1, 2014 and an instalment of \$79 694 018 on December 1, 2015	100 260 216	102 830 991
4.2739% (effective rate of 4,314%), repayable in annual instalments of \$1 787 924 until December 1, 2015	16 091 313	17 879 236
Subtotal	175 782 609	176 195 222
General Fund		
4.926% (effective rate of 4,984%), repayable in annual instalments of \$317 617 until April 1, 2031	7 940 425	7 940 425
Subtotal	7 940 425	7 940 425
Total	183 723 034	184 135 647
Instalments due within one year	(21 107 022)	(10 200 630)
	<u>\$162 616 012</u>	<u>\$173 935 017</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. LONG-TERM DEBT (cont'd)

The Ministère de la Culture et des Communications has committed to repaying all capital and interest for amounts borrowed by the Fund for activities funded through specific borrowings on behalf of the Bibliothèque et Archives nationales du Québec directly from the Financing Fund. To repay the capital and interest on long-term borrowings by the General Fund, Gouvernement du Québec committed to paying the Bibliothèque et Archives nationales du Québec the amounts required to supplement the failure to meet its obligations, should the latter be unable to do so for this borrowing.

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

2008	\$21 107 022
2009	10 685 316
2010	10 685 316
2011	10 847 531
2012	10 658 280

13. FUTURE FRINGE BENEFITS**Pension plans**

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

The Bibliothèque et Archives nationales du Québec's contributions charged to the year-end statement totalled \$1 206 286 (2006: \$918 459). Its liability towards these government plans is restricted to its employer contributions.

Provision for sick leave

	2007		2006
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
Balance, beginning of year	\$3 696 470	\$2 457	\$3 698 927
Annual expenses	1 037 808	1 114	1 038 922
Benefits paid	(807 616)		(807 616)
Balance, end of year	\$3 926 662	\$3 571	\$3 930 233

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

14. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
Balance, beginning of year	\$126 506	\$154 116 124	\$154 242 630	\$150 905 568
Increase in Gouvernement du Québec commitments		11 739 353	11 739 353	17 834 274
Amortization for the fiscal year	(6 506)	(15 896 924)	(15 903 430)	(14 497 212)
Balance, end of year	<u>\$120 000</u>	<u>\$149 958 553</u>	<u>\$150 078 553</u>	<u>\$154 242 630</u>

15. SERVICES RECEIVED UNDER SERVICE AGREEMENTS

The Bibliothèque et Archives nationales du Québec has concluded service agreements with various unrelated organizations under which it lends staff, premises and equipment in exchange for services. These non-monetary operations are posted at book value. For the fiscal year ended March 31, 2007, the following operations were posted:

Revenue

Services received under service agreements	\$335 064

Expenses

Professional, administrative and other services	\$332 564
Rent	2 500

16. FINANCIAL EXPENSES

	2007			2006
	General Fund	Fund for activities funded through specific borrowings	Total	Total
Interest and bank charges	\$23 577	\$(1 976)	\$21 601	\$48 746
Interest on short-term borrowings		674 528	674 528	278 129
Interest on long-term debt	391 678	8 497 519	8 889 197	8 374 337
Amortization of the deferred discount and long-term debt issuing charges	2 541	155 300	157 841	146 259
	<u>\$417 796</u>	<u>\$9 325 371</u>	<u>\$9 743 167</u>	<u>\$8 847 471</u>

Capitalized interest on capital assets in the fiscal year totalled \$8 056 (2006: \$339 960).

17. TAX RECOVERY

After contesting a decision concerning a tax exemption's effective date, the Bibliothèque et Archives nationales du Québec cashed a \$2 157 095 tax refund, \$919 345 of which represented the cost of the building during the Grande Bibliothèque construction period and was used to reduce the building cost. The balance of \$1 237 750 was posted as a gain resulting from tax recovery in the General Fund, where the amounts paid has been posted to expenses.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

18. FINANCIAL INSTRUMENTS**Interest rate risk**

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

Fair value of financial instruments*Gouvernement du Québec subsidies receivable*

The fair value of Gouvernement du Québec subsidies receivable of \$196 173 413 cannot be assessed given the absence of a market for this type of financial instrument.

Long-term debt

At March 31, 2007, the fair value of long-term debts of \$183 723 034 (2006: \$184 135 647) was \$190 997 777 (2006: \$189 717 064), 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, accounts receivable, accounts payable and accrued liabilities, short-term borrowings and accrued interest payable equals their fair value, given that they mature in the short term.

19. COMMITMENTS

The Bibliothèque et Archives nationales has made commitments under equipment operating leases ending on different dates until February 28, 2011. The expenditure for these contracts for the fiscal year ended March 31, 2007 totalled \$232 009 (2006: \$227 509). Minimum future payments for these contracts in the coming fiscal years total \$144 789 (2006: \$46 622). The Bibliothèque et Archives nationales du Québec is also committed under open-ended occupancy service agreements with the Société immobilières du Québec for premises rental. Expenses for the fiscal year ended March 31, 2007 for these agreements totals \$4 348 021 (2006: \$712 546). The minimum amount payable for the fiscal year ended March 31, 2008 represents \$4 504 138.

The Bibliothèque et Archives nationales also entered into contracts for various services and expenditures related to capital assets. At year-end, these commitments were:

For operations	\$155 423
For start-up of Grande Bibliothèque operations	1 868 090
	<u>\$2 023 513</u>

The Bibliothèque et Archives nationales du Québec also committed to awarding teaching establishments or individual amounts totalling \$70 000 annually to support research and training in library science.

20. CONTINGENCIES

The contractor for lot 3 of the construction decree, Axor Construction Canada Inc., failed to sign its contract in keeping with the tender submitted and the commitments entered into, alleging that calls for tender conditions were breached. It is suing the Bibliothèque et Archives nationales for \$3 405 034 plus interest plus the additional compensation provided for in the Québec Civil Code. The Bibliothèque et Archives nationales du Québec is suing Axor Construction Canada Inc. and London Guarantee Life Insurance Co., solidarily, for \$2 095 000 plus interest plus the additional compensation provided for in the Québec Civil Code and Axor Construction Canada Inc., alone, for \$235 156 plus interest plus the additional compensation provided for in the Québec Civil Code plus extrajudicial costs incurred. Axor Construction Canada Inc. or the Bibliothèque et Archives nationales du Québec are being sued by Recouvrements métalliques Bussièrès Ltée for \$1 000 000 plus interest plus the compensation provided for in the Québec Civil Code and expenses, given that the contract between Axor Construction Canada Inc. and the Bibliothèque et Archives nationales du Québec was not ratified. It is impossible to reasonably foresee the outcome of these three proceedings. Consequently, no provision has been entered on the books.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

21. ADDITIONAL INFORMATION CONCERNING CASH FLOWS

	2007	2006
a) Interest paid	<u>\$9 606 167</u>	<u>\$6 499 052</u>
b) Operations not affecting cash flows related to investment activities:		
Capital asset purchases financed from accounts receivable	<u>\$745 154</u>	<u>\$3 377 392</u>

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in the financial statements and posted at exchange value, the Bibliothèque et Archives nationales du Québec is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. With the exception of the transactions mentioned below, the Bibliothèque et Archives nationales du Québec 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.

When the Bibliothèque nationale du Québec and the Archives nationales du Québec merged on January 31, 2006, the Bibliothèque et Archives nationales du Québec acquired the rights and assumed the obligations of the Archives nationales du Québec. The Bibliothèque et Archives nationales du Québec posted a Ministère de la Culture et des Communications account payable corresponding to the amount of the net book value of the assets transferred and certain expenses repayable to the Department. At March 31, 2007, the accounts payable and accrued liabilities included the balance owing to the Department--\$727 996 (\$1 561 866 at March 31, 2006). The Bibliothèque et Archives nationales du Québec also posted a Secrétariat du Conseil du trésor account receivable corresponding to the provision for vacation pay and sick leave for the employees transferred. At March 31, 2007, accounts receivable included \$1 171 346 for sick leave (\$2 100 845 at March 31, 2006).

The Bibliothèque et Archives nationales du Québec concluded an agreement with the Ministère de l'Emploi et de la Solidarité sociale under which the Bibliothèque et Archives nationales du Québec lends the Department space for the activities of a career employment centre. The book value of this transaction is assessed at an annual \$1 624. Emploi-Québec has committed to covering the cost of setting up and operating the career employment centre with regard to documentary, human and material resources. Consequently, in the fiscal year ended March 31, 2005, Emploi-Québec repaid the initial acquisition cost of a collection of 4 400 documentary resources (\$160 000), which became the property of the Bibliothèque et Archives nationales du Québec. Emploi-Québec also committed to repaying, over a five-year period, the costs linked to renewing the collections to an annual maximum of \$50 000. In the fiscal year ended March 31, 2007, these acquisitions represented \$43 461 (2006: \$0). These operations are posted at exchange value. The amounts repaid for these document acquisitions are posted as deferred revenues and recorded as General Fund revenues using the same method as for the amortization of these documents. For the fiscal year ended March 31, 2007, the amount posted as a Ministère de l'Emploi et de la Solidarité sociale financial contribution is \$20 346 (2006: \$16 000).

23. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Bibliothèque et Archives nationales du Québec is assessing its different job categories. On the date the financial statements were prepared, the Bibliothèque et Archives nationales du Québec was not able to assess the amount it might have to disburse, if applicable, given that the work related to this process had not yet been completed. Consequently, no amount was posted in the financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

23. PAY EQUITY (cont'd)

Following a wage relativity agreement concluded in the fiscal year ending March 31, 2007 between the Bibliothèque et Archives nationales du Québec and the Syndicat de la fonction publique du Québec, expenses of \$405 282 in retroactive wages and interest were posted. An amount of \$343 542 representing the sums owed to current Bibliothèque et Archives nationales du Québec employees was paid in the fiscal year. At March 31, 2007, the Bibliothèque et Archives nationales du Québec posted accounts payable and accrued liabilities of \$61 740, representing sums owed to employees no longer working for the Bibliothèque et Archives nationales du Québec.

24. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

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

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

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

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

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

Lise Bissonnette
President-Director General

Louise Boutin
Director General, Administration and
In-house Services

Montréal, June 15, 2007

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

To the National Assembly

I have audited the balance sheet of the Bibliothèque et Archives nationales du Québec as at March 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Bibliothèque et Archives nationales' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bibliothèque et Archives nationales as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
for the Auditor General of Québec

Québec, June 15, 2007

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

STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS
for the nine-month period ended December 31, 2006

	2006-12-31 (9 months)	2006-03-31 (12 months)
REVENUES		
Annual contributions	\$146 575	\$165 895
Interest	2 727	22 210
Other	1 498	
Amortization of deferred contributions	495	170
	<u>151 295</u>	<u>188 275</u>
EXPENSES		
Salaries and fringe benefits	59 670	102 870
Rental costs	4 125	5 500
Supplies and office expenses	6 849	12 215
Telecommunications	1 909	2 328
Travel	6 954	24 941
Maintenance and repairs	2 284	3 090
Professional fees	4 950	2 155
Insurance	957	1 270
Other	1 426	13 083
Interest and bank charges	327	746
Amortization of capital assets	1 464	1 860
Contribution and other costs related to the agreement with the Canadian of Professional Fish Harvesters	9 000	2 494
	<u>99 915</u>	<u>172 552</u>
EXCESS OF REVENUES OVER EXPENSES	<u>51 380</u>	<u>15 723</u>
NET ASSETS, BEGINNING OF YEAR	<u>112 062</u>	<u>96 339</u>
EXCESS OF REVENUES OVER EXPENSES AND NET ASSETS, END OF YEAR	<u>\$163 442</u>	<u>\$112 062</u>

The notes are an integral part of these financial statements

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

BALANCE SHEET
as at December 31, 2006

	2006-12-31	2006-03-31
ASSETS		
Current assets		
Cash on hand	\$17 062	\$48 941
Term deposits, 2% and 2.65%	169 036	185 303
Accounts receivable (Note 3)	2 380	4 766
Prepaid expenses	202	1 840
	<u>188 680</u>	<u>240 850</u>
Fixed assets (Note 4)	<u>3 604</u>	<u>4 573</u>
	<u>\$192 284</u>	<u>\$245 423</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$13 292	\$10 366
Deferred contributions (Note 5)	15 550	122 500
Deferred contributions related to capital assets		495
	<u>28 842</u>	<u>133 361</u>
Net assets		
Unappropriated net assets	<u>163 442</u>	<u>112 062</u>
	<u>\$192 284</u>	<u>\$245 423</u>

The notes are an integral part of these financial statements.

For the Board,
Jean-Claude Blanchette, Director
O'Neil Cloutier, Director

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**STATEMENT OF CASH FLOWS**

for the nine-month period ended December 31, 2006

	2006-12-31 (9 months)	2006-03-31 (12 months)
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$51 380	\$15 723
Non-cash items:		
Amortization of capital assets	1 464	1 860
Amortization of deferred contributions for capital assets	(495)	(170)
Loss on sale of capital assets		312
Change in working capital items		
Accounts receivable	2 386	34 743
Prepaid expenses	1 638	434
Accounts payable	2 926	(26 310)
Deferred contributions	(106 950)	(3 900)
Net fund receipts (outpayments)	(47 651)	22 692
FINANCING AND INVESTMENT ACTIVITIES		
Capital assets and net fund outpayments	(495)	(1 280)
Increase (decrease) in cash flow	(48 146)	21 412
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	234 244	212 832
CASH AND CASH EQUIVALENTS, END OF YEAR	\$186 098	\$234 244
CASH AND CASH EQUIVALENTS		
Cash on hand	\$17 062	\$48 941
Term deposits	169 036	185 303
	\$186 098	\$234 244

The notes are an integral part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

1. STATUTS, OBJECTIFS DE L'ORGANISME ET CHANGEMENT DE FIN D'EXERCICE

The Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec is a legal person created on August 4, 1999 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. During the fiscal year, the Bureau modified its fiscal year-end from March 31 to December 31.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect the amounts disclosed in the financial statements and accompanying notes. These estimates are based on management's knowledge of events and on the measures that the Bureau could take in future. Real results may differ from these estimates.

Proceeds recording

The Bureau uses the deferral method to record revenues from annual 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.

Cash and cash equivalents

It is the Bureau's policy to present, under cash and cash equivalents, cash on hand and investments maturing within three months.

Capital assets

Capital assets are recorded at cost. When the Bureau receives contributions in the form of capital assets, their cost corresponds to the fair value on the date of the contribution or to the token value of \$1 if the fair value cannot reasonably be determined.

Capital assets are amortized over their service life in accordance with the diminishing balance method and the following annual rates:

	<u>Rate</u>
Office furniture and equipment	20%
Computer equipment	30%

3. ACCOUNTS RECEIVABLE

	<u>2006-12-31</u>	<u>2006-03-31</u>
Annual contributions	\$1 121	\$1 704
Accrued interest	772	1 787
Consumer taxes	487	988
Other	<u> </u>	<u>287</u>
	<u>\$2 380</u>	<u>\$4 766</u>

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**4. CAPITAL ASSETS**

	2006-12-31		
	Cost	Accumulated depreciation	Net value
Computer equipment	\$13 819	\$10 662	\$3 157
Office furniture and equipment	2 102	1 655	447
	<u>\$15 921</u>	<u>\$12 317</u>	<u>\$3 604</u>
	2006-03-31		
	Cost	Accumulated depreciation	Net value
Computer equipment	\$13 324	\$9 309	\$4 015
Office furniture and equipment	2 102	1 544	558
	<u>\$15 426</u>	<u>\$10 853</u>	<u>\$4 573</u>

5. DEFERRED CONTRIBUTIONS

	2006-12-31	2006-03-31
Registration fees paid by fishermen and fishermen's assistants ^a	<u>\$15 550</u>	<u>\$122 500</u>

^a Deferred revenue represents the registration fees paid by fishermen and fishermen's assistants for fiscal 2007. These contributions are designed to cover operating expenses for the coming fiscal year.

6. RELATED PARTY TRANSACTIONS

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.

7. 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

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**AUDITORS' REPORT**

To the administrators of the
Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec

We have audited the balance sheet of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec as at December 31, 2006, the statements of operations, changes in net assets statement and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

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 satisfactorily verify the comprehensiveness. Consequently, our audit is limited to the amounts recorded in the Bureau's accounts and we were unable to determine whether certain adjustments should have been made to contribution proceeds in the short-term assets and the surplus.

In our opinion, with the exception of the effect of the adjustment we might have deemed necessary had we 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 December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The accounts for the fiscal year ended March 31, 2006 presented for comparison purposes come from financial statements audited by other auditors.

Raymond Chabot Grant Thornton, S.E.N.C.R.L.
Chartered accountants

Chandler, January 31, 2007

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

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Autorité des marchés financiers contribution	\$2 125 000	\$1 362 589
Fees and related costs	2 613	4 446
Other products	61 586	44 067
Transfers for sick leave and vacation time (Note 6)	<u>12 647</u>	<u>12 647</u>
	<u>2 189 199</u>	<u>1 423 749</u>
EXPENSES		
Salaries and fringe benefits	927 546	1 048 778
Rent and fit ups	253 575	251 279
Amortization of capital assets	126 688	123 377
Operating expenses	114 659	63 179
Professional, administrative and other services	89 891	40 429
Part-time members' fees	42 700	28 566
Transportation and communications	28 317	27 765
Interest on pay equity	997	
Interest on long-term debt	<u>2 793</u>	<u>14 696</u>
	<u>1 587 166</u>	<u>1 598 069</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	602 033	(174 320)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>1 562 076</u>	<u>1 736 396</u>
CUMULATED SURPLUS, END OF YEAR	<u>\$2 164 109</u>	<u>\$1 562 076</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, 2007

	2007	2006
ASSETS		
Current assets		
Cash	\$234 421	\$145 440
Accounts receivable		142
Interest accrued	19 945	10 954
Short-term investments (Note 3)	821 111	558 051
Prepaid expenses	60 569	35 542
	<u>1 136 046</u>	<u>750 129</u>
Conseil du trésor receivable		81 691
Investment (Note 3)	994 443	693 689
Capital assets (Note 4)	<u>516 316</u>	<u>643 004</u>
	<u><u>\$2 646 805</u></u>	<u><u>\$2 168 513</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$22 111	\$20 330
Instalments on long-term debt (Note 7)		48 032
	<u>22 111</u>	<u>68 362</u>
Provision for sick leave and vacation time (Note 6)	460 585	474 565
Long-term debt (Note 7)		<u>63 510</u>
	<u>482 696</u>	<u>606 437</u>
CUMULATED SURPLUS		
Contingency reserve (Note 8)	1 000 000	700 000
Unappropriated cumulated surplus	<u>1 164 109</u>	<u>862 076</u>
	<u>2 164 109</u>	<u>1 562 076</u>
	<u><u>\$2 646 805</u></u>	<u><u>\$2 168 513</u></u>

COMMITMENT (Note 12)**BUREAU DE DÉCISION ET DE RÉVISION
EN VALEURS MOBILIÈRES FUND (Note 14)**

The notes are an integral part of these financial statements.

On behalf of management
Guy Lemoine, Chairman
Teresa Carluccio, Director of Administration

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$602 033	\$(174 320)
Adjustments for:		
Amortization of capital assets	126 688	123 377
	728 721	(50 943)
Change in non-cash items related to operating activities		
Decrease in accounts receivable	142	69 069
Increase in interest accrued	(8 991)	(4 916)
Increase in prepaid expenses	(25 027)	(22 701)
Conseil du trésor receivable	81 691	(81 691)
Change in accounts payable and accrued liabilities	1 781	(58 077)
Provision for sick leave and vacation time	(13 980)	39 354
	35 616	(58 962)
Cash flows related to operating activities	764 337	(109 905)
INVESTMENT ACTIVITIES		
Acquisition of capital assets		(22 958)
Acquisition of long-term investment	(300 754)	(693 689)
Cash flows related to investment activities	(300 754)	(716 647)
FINANCING ACTIVITIES		
Cash flows related to financing activities		
Long-term debt repayment	(111 542)	(239 998)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	352 041	(1 066 550)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	703 491	1 770 041
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	\$1 055 532	\$703 491

The notes are an integral part of these financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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), exercises the powers provided for in the Securities Act (R.S.Q., c. V-1.1), including the review power provided for in section 322.

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 14.

2. ACCOUNTING POLICIES

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

Capital assets

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

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

Investments

Short-term investments are recorded at cost or market value, whichever is less. Long-term investments are recorded at cost. The discount is amortized over the remainder of the long-term investment.

Revenue recording

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

Pension plans

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

Cash and cash equivalents

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

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. INVESTMENTS**

	2007		2006	
	Cost	Fair value	Cost	Fair value
Short-term investments				
Government of Canada T-bills:				
- maturing April 5, 2007, at rate of return of 3.43%	\$199 167	\$200 907		
- maturing May 17, 2007, at rate of return of 4.05%	199 225	200 952		
- maturing June 14, 2007, at rate of return of 4.16%	422 719	425 412	\$558 051	\$561 933
	<u>\$821 111</u>	<u>\$827 271</u>	<u>\$558 051</u>	<u>\$561 933</u>

Investment

Government of Canada's bond maturing on June 1 2009, at rate of 3.75%	<u>\$994 443</u>	<u>\$1 007 447</u>	<u>\$693 689</u>	<u>\$692 910</u>

4. CAPITAL ASSETS

	2007		2006	
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$68 786	\$54 973	\$13 813	\$36 752
Equipment and office furniture	167 042	72 009	95 033	128 930
Leasehold improvements	558 816	151 346	407 470	477 322
	<u>\$794 644</u>	<u>\$278 328</u>	<u>\$516 316</u>	<u>\$643 004</u>

5. CASH FLOW

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

	2007	2006
Cash	\$234 421	\$145 440
Short-term investments	821 111	558 051
Cash and cash equivalents	<u>\$1 055 532</u>	<u>\$703 491</u>

Interest paid

Interest paid by the Bureau in the fiscal year totalled \$2 793 (2006: \$14 696).

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

6. FUTURE FRINGE BENEFITS

Pension plans

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

The Bureau's contributions posted to results totalled \$46 773 (2006: \$45 059). Its obligations towards these government plans are limited to its employer contributions.

Provision for sick leave and vacation time

Following staff transfers from the Autorité des marchés financiers and Secrétariat du Conseil du trésor, the Bureau received an equivalent compensation from the Secrétariat of \$0 (2006: \$12 647).

	2007			2006
	Sick leave	Vacation time	Total	Total
Balance, beginning of year	\$311 570	\$162 995	\$474 565	\$435 211
Annual expenses	12 350	87 255	99 605	136 120
Benefits paid	(33 283)	(80 302)	(113 585)	(96 766)
Balance, end of year	<u>\$290 637</u>	<u>\$169 948</u>	<u>\$460 585</u>	<u>\$474 565</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. During the fiscal year, the Bureau made an advance repayment of this long-term debt.

	2007	2006
Borrowing, 5%, repayable in monthly instalments of \$4 376 including principal and interest, maturing June 30, 2008		\$111 542
Minus: capital payments maturing within one year		(48 032)
		<u>\$63 510</u>

8. CONTINGENCY RESERVE

The Bureau resolved to create a contingency reserve. In the fiscal year, an additional \$300 000 was allotted to the reserve for a total of \$1 000 000 (2006: \$700 000). This reserve was created in case of an unforeseen change in expenses.

9. FINANCIAL INSTRUMENTS

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

10. PAY EQUITY

Following the adoption of the Pay Equity act on November 21, 1996, the Bureau must assess the different job categories and has disbursed \$9 622.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

11. 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 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.

12. COMMITMENT

The Bureau is committed to paying a minimum of \$258 645 under a long-term agreement ending March 31, 2008 for its administrative offices.

The fiscal year's expenses for offices currently occupied was \$253 575 (2006: \$251 058).

13. PREVIOUS FISCAL YEAR'S FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

14. BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES FUND**Changes in Fund balance for the year ended March 31, 2007**

	2007	2006
Increase		
Autorité des marchés financiers contribution	\$2 125 000	\$1 362 589
Fees and related costs	2 613	4 446
Other	61 586	44 067
Transfers for sick leave and vacation time		12 647
	<u>2 189 199</u>	<u>1 423 749</u>
Decrease		
Transfers linked to:		
Operating activities	1 497 562	1 516 258
Capital asset activities		22 958
Long-term debt repayment	<u>111 542</u>	<u>239 998</u>
	<u>1 609 104</u>	<u>1 779 214</u>
Balance, beginning of year	<u>1 489 825</u>	<u>1 845 290</u>
Balance, end of year	<u><u>\$2 069 920</u></u>	<u><u>\$1 489 825</u></u>
The balance is represented by:		
Cash on hand	\$234 421	\$145 440
Accrued interest	19 945	10 954
Short-term investments	821 111	558 051
Conseil du trésor receivable		81 691
Investments	<u>994 443</u>	<u>693 689</u>
	<u><u>\$2 069 920</u></u>	<u><u>\$1 489 825</u></u>

Every year, the Government determines, by Order-in-Council, the amount, terms and conditions of payment of amounts the Autorité des marchés financiers must pay to the 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 were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Guy Lemoine
President

Teresa Carluccio
Director of Administration

Montréal, July 5, 2007

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

To the National Assembly

I have audited the balance sheet of the Bureau de décision et de révision en valeurs mobilières as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Bureau's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bureau as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year

Diane Bergeron, CA, Principle Director
For the Auditor General of Québec

Québec, July 5, 2007

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, 2006
(in millions of dollars)

	<u>2006</u>	<u>2005</u>
Investment income (Note 5a)	5 516	4 724
Less:		
Operating expenses (Note 6)	<u>262</u>	<u>239</u>
Net investment income	5 254	4 485
Gains (losses) on the sale of investments (Note 5d)	<u>4 594</u>	<u>7 715</u>
Total realized income	9 848	12 200
Unrealized increase (decrease) in the value of investments and liabilities related to investments (Note 5e)	<u>7 920</u>	<u>2 955</u>
Total investment operations	17 768	15 155
Excess depositors' deposits over withdrawals	<u>3 552</u>	<u>4 571</u>
INCREASE IN COMBINED NET ASSETS	21 320	19 726
COMBINED NET ASSETS, BEGINNING OF YEAR	<u>122 159</u>	<u>102 433</u>
COMBINED NET ASSETS, END OF YEAR	<u><u>143 479</u></u>	<u><u>122 159</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, 2006

(in millions of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments at fair value (Note 3a)	203 819	177 108
Advances to depositors	1 024	941
Investment income, accrued and receivable	1 098	950
Transactions being settled	1 277	349
Other assets	<u>640</u>	<u>391</u>
	<u>207 858</u>	<u>179 739</u>
LIABILITIES		
Liabilities related to investments (Note 3b)	60 857	51 632
Transactions being settled	514	3 718
Other liabilities	1 534	970
Non-controlling interests (Note 3c)	<u>1 474</u>	<u>1 260</u>
	<u>64 379</u>	<u>57 580</u>
DEPOSITORS' HOLDINGS (Note 4)	<u>143 479</u>	<u>122 159</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
 Claude Garcia

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS

as at December 31, 2006

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS

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

GENERAL FUND (consolidated statements)

The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing).

INDIVIDUAL FUNDS

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

Fund 300

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

Fund 301

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

Fund 302

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

Fund 303

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

Fund 305

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

Fund 306

Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

Fund 307

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

Fund 311

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

Fund 312

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

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

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

Fund 314

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

Fund 315

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

Fund 316

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

Fund 317

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

Fund 318

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

Fund 326

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

Funds 327

Fédération des producteurs de bovins du Québec;

Fund 328

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

Fund 329

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

Fund 330

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

Fund 332

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

Fund 333

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

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)

INDIVIDUAL FUNDS (cont'd)

Fund 341

Fonds réservé administered by the Autorité des marchés financiers;

Fund 342

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

Fund 343

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

Fonds 346

Fonds d'assurance parentale – Réserve administered by the Conseil de gestion de l'assurance parentale (created February 1, 2006);

Fonds 347

Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec administré par le Groupe-conseil Aon (created January 1, 2006);

Fonds 348

Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ (created July 1, 2006).

SPECIALIZED PORTFOLIOS

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

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

2. ACCOUNTING POLICIES

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

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

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

as at December 31, 2006

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**a) Combined financial statements**

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

b) Investments and joint operations

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

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. Income from mortgages are reduced by operating expenses, financial costs of CMBS and write-off of deferred charges and are recorded under Investment Income – Fixed-income securities

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost 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 prices on 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 biannually 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, except for the costs of investments in joint ventures, which are recorded on an equity basis.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

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

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

i) Valuation method

Derivative financial instruments are recorded at their fair value at year-end. These values are established from 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.

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

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

Securities acquired under reverse repurchase agreements

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

Securities sold under repurchase agreements

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

Short selling of securities

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

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded in Gains (losses) on the sale 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, which include administration of real estate properties and management of securitized loans.

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

as at December 31, 2006

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**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 of exchange 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.

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 relinquished control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with Accounting Guideline AcG-12 "Transfers of receivables". At time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded under Gains (losses) on sale of investments – Mortgages.

Companies under common control usually continue to manage loans after disposition. Since management fees are established on the basis of the market for such services, no assets or liabilities under management are recorded as at 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 and real estate debt, which are deducted from the real estate holdings investment income and mortgages investment income respectively.

g) Future accounting changes

The Canadian Institute of Chartered Accountants (CICA) issued Sections 3855 "Financial instruments: Recognition and Measurement" and 3861 "Financial instruments: Disclosure and Presentation", which came into effect for financial statements for fiscal periods beginning October 1, 2006. As the Caisse qualifies as an investment company according to the Accounting Guideline AcG-18 "Investment companies", the only provisions in Section 3855 applying to Caisse investments are those concerning the accounting, regular-way purchase or sale and measurement at fair value. Considerations concerning valuation at fair value including specific requirements for the measurement at fair value, and provisions on the accounting of transaction costs will have an impact on the Caisse.

In addition, Section 3861 will impact the notes to financial statements of the Caisse. For example, the Caisse will be required to disclose a description of its objectives and policies with respect to the management of financial risks.

The Caisse will apply these new standards during the year 2007 and will follow up on any changes the CICA could make to such standards.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

	2006		2005	
	Fair value	Cost	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	28 945	28 947	29 738	29 741
Foreign	4 609	4 558	2 099	2 170
	<u>33 554</u>	<u>33 505</u>	<u>31 837</u>	<u>31 911</u>
Bonds				
<i>Issued or guaranteed by:</i>				
Canadian government	18 213	17 794	26 999	26 146
Province of Quebec	9 309	8 388	9 391	8 372
Other Canadian provinces	4 002	3 907	1 898	1 815
Municipalities and other Canadian bodies	1 535	1 505	1 248	1 202
Canadian government corporations	10 681	9 932	9 883	9 073
U.S. government	1 180	1 148	1 807	1 886
Other foreign government	950	916	1 842	2 116
Mortgage securities	3 634	3 628	1 887	2 025
Canadian corporations	14 583	14 447	9 551	9 418
Foreign corporations	3 076	3 068	2 040	2 184
Inflation-indexed securities				
Canadian	1 054	978	1 277	1 111
Foreign	3 328	3 380	1 858	1 958
Hedge funds	1 899	1 806	1 473	1 491
	<u>73 444</u>	<u>70 897</u>	<u>71 154</u>	<u>68 797</u>
Mortgages				
Canadian	4 877	4 779	4 402	4 288
Foreign	2 036	2 057	579	591
	<u>6 913</u>	<u>6 836</u>	<u>4 981</u>	<u>4 879</u>
Total fixed-income securities	<u>113 911</u>	<u>111 238</u>	<u>107 972</u>	<u>105 587</u>
Variable-income securities				
Equities and convertible securities				
Canadian	17 615	14 610	17 350	15 584
U.S.	15 903	15 571	13 987	15 205
Foreign and emerging markets	24 595	19 175	16 057	14 490
Hedge funds	4 477	4 267	3 754	3 739
	<u>62 590</u>	<u>53 623</u>	<u>51 148</u>	<u>49 018</u>
Real estate holdings				
Canadian	11 382	8 357	9 247	7 490
Foreign	7 422	6 638	3 635	3 843
	<u>18 804</u>	<u>14 995</u>	<u>12 882</u>	<u>11 333</u>
Total variable-income securities	<u>81 394</u>	<u>68 618</u>	<u>64 030</u>	<u>60 351</u>
Amounts carried forward	<u>195 305</u>	<u>179 856</u>	<u>172 002</u>	<u>165 938</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

	2006		2005	
	Fair value	Cost	Fair value	Cost
Amounts brought forward	195 305	179 856	172 002	165 938
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	1 332	1 332	675	675
Foreign	3 975	3 931	2 694	2 717
Amount pertaining to derivative instruments				
Canadian	394	9	416	10
Foreign	2 813	1 105	1 321	472
	8 514	6 377	5 106	3 874
Total investments	203 819	186 233	177 108	169 812

(1) Investments – Real estate holdings includes investments in joint ventures now reported on an equity basis. These investments at fair value were as follows:

	2006	2005
Investments in joint ventures	5 957	5 643
Real estate holdings	8 839	9 167
Short-term investments	6	3
Investment income, accrued and receivable	7	5
Other assets	250	337
	9 102	9 512
Mortgage loans payable	2 642	3 439
Other liabilities	488	404
Non-controlling interests	15	26
	3 145	3 869

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

	2006		2005	
	Fair value	Cost	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	26 944	26 951	25 458	25 462
Foreign	3 650	3 615	4 022	4 062
Commercial paper payable	4 111	4 112	2 519	2 519
Medium-term notes	1 091	1 090	1 215	1 206
Loans payable				
Canadian	160	159	113	110
Foreign	361	359	86	86
Canadian commercial mortgage-backed securities				
Canadian	333	311	356	327
Foreign	847	843		
Shortselling of securities				
Canadian	13 395	12 249	12 232	11 565
Foreign	5 126	4 854	3 560	3 559
Mortgage loans payable				
Canadian	661	641	640	612
Foreign	954	958	233	227
Amount pertaining to derivative instruments				
Canadian	189	35	243	38
Foreign	3 035	857	955	343
	<u>60 857</u>	<u>57 034</u>	<u>51 632</u>	<u>50 116</u>

c) Non-controlling interests

	2006		2005	
	Fair value	Cost	Fair value	Cost
Canadian	1 209	1 021	1 023	948
Foreign	265	263	237	183
	<u>1 474</u>	<u>1 284</u>	<u>1 260</u>	<u>1 131</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**d) Summary geographic breakdown of fair value of investments and liabilities related to investments**

	2006		
	Canadian	Foreign	Total
Investments			
Fixed-income securities	93 466	20 445	113 911
Equities and convertible securities	17 627	44 963	62 590
Real estate holdings	11 382	7 422	18 804
Amount receivable with respect to investments	1 726	6 788	8 514
	<u>124 201</u>	<u>79 618</u>	<u>203 819</u>
Liabilities related to investments	<u>46 884</u>	<u>13 973</u>	<u>60 857</u>
Non-controlling interests	<u>1 209</u>	<u>265</u>	<u>1 474</u>
	2005		
	Canadian	Foreign	Total
Investments			
Fixed-income securities	94 749	13 223	107 972
Equities and convertible securities	17 349	33 799	51 148
Real estate holdings	9 247	3 635	12 882
Amount receivable with respect to investments	1 091	4 015	5 106
	<u>122 436</u>	<u>54 672</u>	<u>177 108</u>
Liabilities related to investments	<u>42 776</u>	<u>8 856</u>	<u>51 632</u>
Non-controlling interests	<u>1 023</u>	<u>237</u>	<u>1 260</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

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(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

	2006					2005	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effect- ive interest rate	Total par value	Effect- ive interest rate
Fixed-income securities							
Short-term investments							
Canadian	28 826	247	71	29 144	4.5 %	29 834	3.3 %
Foreign	<u>4 361</u>	<u>87</u>	<u>151</u>	<u>4 599</u>	6.8	<u>2 103</u>	5.1
	<u>33 187</u>	<u>334</u>	<u>222</u>	<u>33 743</u>	4.8	<u>31 937</u>	3.5
Bonds							
<i>Securities issued or guaranteed by:</i>							
Canadian government	1 352	3 401	11 608	16 361	4.1	23 895	3.8
Province of Québec	70	1 744	5 526	7 340	4.8	7 988	4.9
Other Canadian provinces	112	431	3 062	3 605	4.6	1 711	4.3
Municipalities and other Canadian bodies	248	577	668	1 493	5.2	1 185	5.3
Canadian government corporations	1 205	4 583	3 638	9 426	4.6	8 972	4.5
U.S. government		7	1 173	1 180	4.7	1 719	4.0
Other foreign governments		92	858	950	3.9	1 884	2.0
Mortgage securities	6	127	5 546	5 679	11.4	3 384	13.1
Canadian corporations	1 094	3 382	9 819	14 295	5.0	9 279	4.9
Foreign corporations	172	490	2 405	3 067	6.3	2 099	5.8
Inflation-indexed securities							
Canadian			658	658	2.3	745	2.4
Foreign	<u>116</u>	<u>596</u>	<u>2 439</u>	<u>3 151</u>	1.9	<u>1 671</u>	1.7
	<u>4 375</u>	<u>15 430</u>	<u>47 400</u>	<u>67 205</u>	5.1	<u>64 532</u>	4.7
Mortgages							
Canadian	1 452	1 722	1 605	4 779	6.8	4 280	6.4
Foreign	<u>745</u>	<u>1 280</u>	<u>32</u>	<u>2 057</u>	7.9	<u>589</u>	8.2
	<u>2 197</u>	<u>3 002</u>	<u>1 637</u>	<u>6 836</u>	7.2	<u>4 869</u>	6.6
	<u>39 759</u>	<u>18 766</u>	<u>49 259</u>	<u>107 784</u>	5.1 %	<u>101 338</u>	4.4 %
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	1 332			1 332	4.2 %	676	3.3 %
Foreign	<u>4 010</u>			<u>4 010</u>	3.9	<u>2 704</u>	3.6
	<u>5 342</u>			<u>5 342</u>	4.0 %	<u>3 380</u>	3.5 %

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(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)**

	2006					2005	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effect- ive interest rate	Total par value	Effect- ive interest rate
Liabilities related to investments							
Securities sold under repurchase agreements	30 826			30 826	4.2 %	29 530	3.2 %
Commercial paper payable	4 143			4 143	4.3	2 525	3.3
Medium-term notes	936	156		1 092	4.2	1 210	4.2
Loans payable	371	150		521	4.4	193	3.9
Canadian commercial mortgage-backed securities	8	280	807	1 095	13.3	335	6.9
Short selling of securities	1 419	1 565	8 126	11 110	5.3	10 818	4.0
Mortgage loans payable	689	137	773	1 599	6.7	839	8.1
	<u>38 392</u>	<u>2 288</u>	<u>9 706</u>	<u>50 386</u>	4.7 %	<u>45 450</u>	3.5 %

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

	2006	2005
Canadian securities		
Short-term investments	1 303	541
Bonds	814	528
Equities and convertible securities	<u>4 154</u>	<u>3 478</u>
	<u>6 271</u>	<u>4 547</u>
Foreign securities		
Short-term investments	2 248	729
Bonds	751	530
Equities and convertible securities	<u>13 898</u>	<u>7 359</u>
	<u>16 897</u>	<u>8 618</u>
	<u>23 168</u>	<u>13 165</u>

In addition, gains in the amount of \$4 594 million (\$7 715 million in 2005) on the sale of investments recorded in changes in net assets were reduced by foreign exchange losses of \$3 383 million (increased by foreign exchange gains of \$1 257 million in 2005).

4. DEPOSITORS' HOLDINGS

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

During the year, the Caisse paid \$6 million (recovered \$2 million in 2005) in interests on demand and term deposits.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

4. DEPOSITORS' HOLDINGS (cont'd)

Participation deposits are expressed in units, and each unit gives its holder a proportionate share in the net equity and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

During the year, the Caisse paid \$8 724 million (\$6 350 million in 2005) in net income to participation deposit holders.

	2006	2005
Caisse's indebtedness toward depositors		
Demand deposits	739	220
Term deposits	24	14
Interest on demand and term deposits		(1)
Net income to be paid out to participation deposit holders	782	828
	1 545	1 061
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	104 162	93 317
Units issued	12 119	11 957
Units cancelled	(334)	(1 112)
Balance, end of year	115 947	104 162
Amount not allocated with respect to real estate holdings *	29	31
Unrealized increase (decrease) in value allocated after interfund transactions	(1 080)	(597)
Amount not allocated after gains and losses on the sale of investments in the specialized portfolios **	13 465	11 851
Unrealized increase (decrease) in value of investments and other related assets and liabilities	13 573	5 651
	141 934	121 098
Depositors' holdings	143 479	122 159

* 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 VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS**a) Investment income**

	2006	2005
Fixed-income securities		
Short-term investments	489	189
Bonds	2 589	2 440
Mortgages (Note 5b)	206	259
Amounts carried forward	3 284	2 888

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

	2006	2005
Amounts brought forward	3 284	2 888
Variable-income securities		
Equities and convertible securities	1 544	1 370
Real estate holdings (Note 5c)	707	527
	2 251	1 897
Other income	57	37
Non-controlling interests	(76)	(98)
	5 516	4 724

Investment income – Fixed-income securities were reduced of \$1 003 million (\$672 million in 2005) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

b) Net income from mortgages

	2006	2005
Income from mortgages	332	321
Less:		
Expenses related to real estate debt subsidiaries		
Operation expenses	36	13
Financial costs of CMBS	79	49
Write-off of deferred charges	11	
	126	62
	206	259

c) Net income from real estate holdings

	2006	2005
Income from real estate holdings	1 965	1 746
Less :		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	952	893
Operation expenses	83	73
Loan financial expenses	238	275
	1 273	1 241
Other income	15	22
	707	527

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

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5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS
 (cont'd)
d) Gains (losses) on the sale of investments

	2006	2005
Fixed-income securities		
Short-term investments	31	31
Bonds	(195)	1 041
Mortgages	(2)	24
	(166)	1 096
Variable-income securities		
Equities and convertible securities	4 824	6 577
Real estate holdings	(45)	68
	4 779	6 645
Non-controlling interests	(19)	(26)
	4 594	7 715

e) Unrealized increase (decrease) in value of investments and liabilities related to investments

	2006	2005
Fixed-income securities		
Short-term investments	200	(142)
Bonds	322	2
Mortgages	(23)	(36)
Securities acquired under reverse repurchase agreements	80	29
	579	(147)
Variable-income securities		
Equities and convertible securities	7 491	2 335
Real estate holdings	2 218	1 150
	9 709	3 485
Total investments	10 288	3 338
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	72	50
Commercial paper payable	(1)	
Medium-term notes	(8)	(20)
Loans payable		10
Commercial mortgage-backed securities	(3)	(26)
Short selling of securities	750	258
Mortgage loans payable	(18)	(135)
Derivative financial instruments	1 515	116
Non-controlling interests	61	130
	2 368	383
	7 920	2 955

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

as at December 31, 2006

(in millions of dollars)

6. OPERATING EXPENSES

	2006	2005
Salaries and employee benefits	116	107
Professional services	42	42
Data services and subscriptions	14	12
Premises and equipment	16	17
Depreciation of fixed assets	12	13
Other	16	15
	<u>216</u>	<u>206</u>
External management and safekeeping of securities	46	33
	<u>262</u>	<u>239</u>

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying value, the quantity and price of which are determined in the contract, which includes a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments. To manage exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to 12 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 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 whose operational limits are duly approved by management. Moreover, the Caisse has signed compensation agreements to limit credit risks.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in millions of dollars)

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

	2006			2005
	Notional amount	Fair Value		Net amount
		Assets	Liabilities	
Foreign exchange risk management				
Foreign currency swaps				
Sales	2 249	47	70	32
Forward contracts	40 189	35	635	34
Over-the-counter foreign currency options				
Purchases				5
Sales				(4)
	42 438	82	705	67
Interest rate and market risk management				
Interest rate and foreign currency swaps	110 213	785	699	151
Equity swaps	63 586	252	136	159
Credit risk swaps	8 784	35	61	(2)
Futures contracts	537 647			
Forward contracts	56 398	815	748	10
Exchange-traded options				
Purchases	237 839	241		112
Sales	203 549		227	(97)
Over-the-counter options				
Purchases	57 891	997		375
Sales	37 476		648	(236)
	1 313 383	3 125	2 519	472
Total derivative financial instrument contracts	1 355 821	3 207	3 224	539

b) Summary of derivative financial instrument maturities

	2006				2005
	Notional amount – Maturity				
	Less than 2 years	2 to 5 years	More than 5 years	Total	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Sales	612	1 292	345	2 249	1 091
Forward contracts	40 037	44	108	40 189	26 776
Over-the-counter foreign currency options					
Purchases					33
Sales					15
Amounts carried forward	40 649	1 336	453	42 438	27 915

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

as at December 31, 2006

(in millions of dollars)

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

	2006				2005
	Notional amount – Maturity				Notional amount
	Less than 2 years	2 to 5 years	More than 5 years	Total	
Amounts brought forward	40 649	1 336	453	42 438	27 915
Interest rate and market risk management					
Interest rate and foreign currency swaps	25 925	16 945	67 343	110 213	69 150
Equity swaps	45 821	14 043	3 722	63 586	11 387
Credit risk swaps	1 467	6 805	512	8 784	3 220
Futures contracts	503 904	33 743		537 647	152 209
Forward contracts	47 560	8 801	37	56 398	12 596
Exchange-traded options					
Purchases	226 890	10 949		237 839	72 809
Sales	195 403	8 146		203 549	69 611
Over-the-counter options					
Purchases	36 551	8 936	12 404	57 891	53 238
Sales	20 534	10 700	6 242	37 476	32 601
	1 104 055	119 068	90 260	1 313 383	476 821
Total derivative financial instrument contracts	1 144 704	120 404	90 713	1 355 821	504 736

8. SECURITIZATION

In the course of Caisse securitization operations, commercial mortgage-backed securities and notes payable acquired by the Caisse over the last few years from a collateralized security entity, are recorded in the combined statement of net assets, under Mortgages securities. As at December 31, 2006 these securities amounted to \$293.6 million (\$314.8 million in 2005). Securitization operations have allowed companies under common control to generate management fees representing \$2.1 million in 2006 (\$1.9 million in 2005). No losses are expected owing to the nature and quality of such loans.

9. COMMITMENTS AND CONTINGENCIES

Given the nature of its operation, 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. Collaterals related to the reimbursement of loans have no specific maturity date, except in some cases, where the terms vary between one to four years.

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

as at December 31, 2006

(in millions of dollars)

9. COMMITMENTS AND CONTINGENCIES (cont'd)

	<u>2006</u>	<u>2005</u>
Commitments to buy investments	20 741	8 859
Collaterals and loan guarantees	<u>567</u>	<u>737</u>
	<u>21 308</u>	<u>9 596</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 to limit credit risk. In its securities lending operations, the Caisse received assets as collateral. As at December 31, 2006, the Caisse had pledged and received as collateral securities and other assets for amounts of \$39 460 million (\$31 411 million in 2005) and \$8 318 million (\$6 769 million in 2005) respectively. The amount of the assets pledged as collateral consists of assets with a value of \$764 million (\$688 million in 2005), which were pledged with depositaries to participate in clearing and payment systems.

11. COMPARATIVE FIGURES

Certain figures from the 2005 financial statements have been reclassified to conform to the presentation adopted in 2006.

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

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the “Caisse”) are the responsibility of management. The combined financial statements were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management’s best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2006.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational controls, information disclosure controls and procedures, and internal control over financial information. The Caisse’s internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse’s objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place as regards operations, assets and records. Moreover, the Caisse’s internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec has audited the combined financial statements of the Caisse, and his report covers the nature and scope of the audit and expresses his opinion. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and relations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2006. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the Auditor General, examines the combined financial statements and recommends their approval to the Board of Directors.

Henri-Paul Rousseau
President and Chief Executive Officer

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

Montréal, February 16, 2007

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

To the National Assembly

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 2006, along with the combined statement of income and changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 2006, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that in my opinion, these principles have been applied on a consistent basis with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, February 16, 2007

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

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Interest on bank deposits and short-term investments	\$735 123	\$475 737
Interest on debentures	523 077	397 498
Royalties on debentures	172 062	86 756
Dividends	12 000	11 332
Fees	<u>32 155</u>	<u>33 000</u>
	<u>1 474 417</u>	<u>1 004 323</u>
EXPENSES		
Salaries and fringe benefits	665 231	626 848
Transportation and communication	75 940	57 170
Rent	39 440	32 161
Professional and administrative services	275 308	32 558
Supplies and materials	7 903	31 604
Amortization of capital assets	899	1 885
Loss of value on investments	595 255	282 617
Loss on investment write-offs	<u>336 896</u>	<u></u>
	<u>1 996 872</u>	<u>1 064 843</u>
DEFICIENCY OF REVENUE OVER EXPENSES BEFORE SHARES	522 455	60 520
SHARE IN THE LOSS OF SATELLITE CORPORATIONS	<u>237 375</u>	<u>200 000</u>
DEFICIENCY OF REVENUES OVER EXPENSES	759 830	260 520
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>2 098 972</u>	<u>1 838 452</u>
CUMULATED DEFICIT, END OF YEAR	<u><u>\$2 858 802</u></u>	<u><u>\$2 098 972</u></u>

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.BALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$789	\$80 407
Short-term investments (Note 3)	16 817 582	16 383 103
Accounts receivable and accrued interest	301 502	181 134
Instalments receivable on investments (Note 4)	676 302	374 442
	<u>17 796 175</u>	<u>17 019 086</u>
Investments (Note 4)	6 129 316	5 072 943
Capital assets (Note 5)	<u>1 799</u>	<u>2 698</u>
	<u><u>\$23 927 290</u></u>	<u><u>\$22 094 727</u></u>
LIABILITIES		
Current liabilities		
Supplies and expenses payable	\$34 881	\$29 436
Owed to La Financière agricole du Québec (Note 6)	232 855	33 572
Provision for vacation time	69 257	63 609
	<u>336 993</u>	<u>126 617</u>
Provision for sick leave (Note 7)	<u>83 090</u>	<u>67 082</u>
	<u>420 083</u>	<u>193 699</u>
SHAREHOLDERS EQUITY		
Capital stock (Note 9)	26 366 009	24 000 000
Deficit	<u>(2 858 802)</u>	<u>(2 098 972)</u>
	<u>23 507 207</u>	<u>21 901 028</u>
	<u><u>\$23 927 290</u></u>	<u><u>\$22 094 727</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.STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Deficiency of revenue over expenditure	\$(759 830)	\$(260 520)
Items not affecting cash flow:		
Capitalized interest on investments	(109 590)	(143 235)
Amortization of capital assets	899	1 885
Loss of value on investments	595 255	282 617
Loss on investment write-offs	336 896	
Share in the loss of satellite corporations	237 375	200 000
	301 005	80 747
Change in non-cash items related to operations:		
Accounts receivable and accrued interest	(120 368)	98 605
Suppliers and expenses payable	8 143	(5 747)
Owed to La Financière agricole du Québec	199 283	(34 155)
Provision for vacation time	5 648	(9 140)
Provision for sick leave	16 008	13 202
	108 714	62 765
Cash flow related to operating activities	409 719	143 512
INVESTMENT ACTIVITIES		
Acquisition of investments	(2 793 874)	(1 692 672)
Cashing of investments in the form of debentures	375 705	341 802
Acquisition of capital assets	(2 698)	
Cash flow related to investment activities	(2 420 867)	(1 350 870)
FINANCING ACTIVITIES		
Class B share issue and cash flows linked to financing activities	2 366 009	
NET CHANGE IN CASH AND CASH EQUIVALENTS	354 861	(1 207 358)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16 463 510	17 670 868
CASH AND CASH EQUIVALENTS, END OF YEAR	\$16 818 371	\$16 463 510
Closing cash and cash equivalents include:		
Cash on hand	\$789	\$80 407
Short-term investments	16 817 582	16 383 103
	\$16 818 371	\$16 463 510

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007**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

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Significant estimates include the service life of fixed assets, provisions and certain expenses payable. Management is of the opinion that these estimates are adequate. Real results may differ from these 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 value so as to reflect their estimated realizable value. 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 change in this provision is posted to the statement of operations and cumulate deficit.

Capital assets

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

Pension plans

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

Cash and cash equivalents

It is the Capital Financière agricole inc.'s policy to present, 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, 2007**3. SHORT-TERM INVESTMENTS**

	2007	2006
Bankers' acceptance		\$3 689 973
Commercial papers, 4.47% to 4.48%, maturing until June 28, 2007	\$16 817 582	12 693 130
	<u>\$16 817 582</u>	<u>\$16 383 103</u>

4. INVESTMENTS

	2007	2006
Common shares – investments	\$1 150 000	\$1 300 000
Common shares – satellite corporations	76 625	200 000
	<u>1 226 625</u>	<u>1 500 000</u>
Debentures, 9% to 15%, maturing by April 2015. Capital and capitalized interest are cashable as follows: \$676 302 in 2008, \$825 164 in 2009, \$900 662 in 2010 \$860 091 in 2011 and \$2 316 774 for future fiscal years.	5 824 248	4 186 183
Provision for losses	<u>(245 255)</u>	<u>(238 798)</u>
	5 578 993	3 947 385
Instalments receivable in the short term	<u>(676 302)</u>	<u>(374 442)</u>
	4 902 691	3 572 943
	<u>\$6 129 316</u>	<u>\$5 072 943</u>

At March 31, 2007, the debentures subject to a provision for losses totalled \$725 449 (2006: \$388 798).

Under an Order-in-Council of December 11, 2002, the Groupe, 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 per entity. In 2007, the corporation increased its investment ceiling (all types) to \$2 million (2006: \$1.5 million).

5. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Materials and equipment	\$8 867	\$7 068	\$1 799	\$2 698

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**6. OWED TO LA FINANCIÈRE AGRICOLE DU QUÉBEC**

	2007	2006
Interest-free, no terms of repayment	\$10 941	\$33 572
Interest-free, repayable annually up to the amount of the following year's positive profit margin	221 914	
	<u>\$232 855</u>	<u>\$33 572</u>

7. PROVISION FOR SICK LEAVE

	2007	2006
Balance, beginning of year	\$67 082	\$53 880
Expenditure for the year	27 304	22 178
Benefits paid during the year	<u>(11 296)</u>	<u>(8 976)</u>
Balance, end of year	<u>\$83 090</u>	<u>\$67 082</u>

8. PENSION PLANS

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

The corporation's contributions posted to results for the fiscal year total \$31 790 (2006: \$21 218). Capital Financière agricole inc.'s obligations vis-à-vis these government plans is limited to its employer contributions.

9 CAPITAL STOCK**Authorized:**

Unlimited number of class A shares, participating and voting, without nominal value.

Unlimited number of class B shares, participating and voting, redeemable at holder's discretion, as of April 2, 2016, at the book value on the buyback date or fair market value, whichever is higher, without discount for minority ownership, established the date of the buyback request, without nominal value.

Issued and paid:

	2007	2006
24 000 class A shares	\$24 000 000	\$24 000 000
2 637 class B shares	<u>2 366 009</u>	
	<u>\$26 366 009</u>	<u>\$24 000 000</u>

Share issue

On April 6, 2006, the corporation issued 2 637 class B shares in ex change for \$2 366 009 in cash.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. RELATED PARTY TRANSACTIONS**

The main transactions with La Financière agricole du Québec, the parent company, were:

	2007	2006
Salaries and fringe benefits	\$93 363	\$208 355
Transportation and communication	4 170	2 457
Rent	39 440	32 041
Professional and administrative services	206 432	

For the fiscal year ended March 31, 2006, the corporation also provided Capital Financière agricole inc. with professional services for no consideration. These services, estimated at \$230 251, 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. 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.

11. 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 markets. The following assumptions and calculation methods were used:

- The fair value of regular shares not transacted on active markets is deemed to be equal to the book value, given that it is difficult to establish a reasonable estimate.
- 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.

	2007		2006	
	Book value	Fair value	Book value	Fair value
Common shares	\$1 226 625	\$1 226 625	\$1 500 000	\$1 500 000
Debentures	5 578 993	5 487 656	3 947 385	3 802 568

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.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. FINANCIAL INSTRUMENTS (cont'd)****Credit risk (cont'd)**

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 four sectors:

	2007	2006
Food processing	84.6%	77.4%
Food distribution	5.3%	12.6%
Farm production	7.2%	10.0%
Upstream of agriculture	2.9%	

MANAGEMENT'S REPORT

The financial statements of Capital Financière agricole inc. were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

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

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 approves the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

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

For Capital Financière agricole inc.

Jacques Brind'Amour
President

Jean-Marc Lacasse
Vice-President, Corporate Affairs
La Financière agricole du Québec

Lévis, May 11, 2007

CAPITAL FINANCIÈRE AGRICOLE INC.

AUDITOR'S REPORT

To Capital Financière agricole inc. shareholders

I have audited the balance sheet of the Capital Financière agricole inc. as at March 31, 2007, the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the corporation's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 11, 2007

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

STATEMENT OF OPERATIONS AND CUMULATIVE SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
Investment income and fiscal year's profits	\$158 505	\$99 276
Consolidated Revenue Fund remittance	(24 097)	
CUMULATIVE SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>24 097</u>	<u>(75 179)</u>
CUMULATIVE SURPLUS, END OF YEAR	<u><u>\$158 505</u></u>	<u><u>\$24 097</u></u>

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$157 584	\$293 467
Demand deposits in the General Fund of the Caisse de dépôts et placement du Québec – at cost	122 750	137 930
Investment income receivable	32 910	26 774
Term deposits, rates varying from 2.25% to 4.06%	2 020 500	2 000 000
Accounts receivable	5 700	3 000
Bonds on deposit (Note 3) (fair value: 2007: \$443 266; 2006: \$257 021)	452 000	256 605
	<u>2 791 444</u>	<u>2 717 776</u>
Bonds on deposit (Note 3) (fair value: 2007: \$593 330; 2006: \$849 813)	605 418	869 482
Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec (Note 4)	<u>954 383</u>	<u>954 383</u>
	<u>\$4 351 245</u>	<u>\$4 541 641</u>
LIABILITIES		
Current liabilities		
Account payable – management costs	\$5 150	
Individual security of travel agents (Note 5)	4 187 590	\$4 517 544
CUMULATIVE SURPLUS	<u>158 505</u>	<u>24 097</u>
	<u>\$4 351 245</u>	<u>\$4 541 641</u>

Yvan Turcotte
President, Office de la
protection du consommateur

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Fiscal year's profit	\$158 505	\$99 276
Change in non-cash items related to operations:		
Investment income receivable	(6 136)	(19 661)
Debtors	(2 700)	(3 000)
Account payable – management costs	5 150	
Capitalization of interest on demand deposit in the General Fund of the Caisse de dépôt et placement du Québec	(94 820)	(67 988)
Capitalization of term deposits	(20 500)	
	(119 006)	(90 649)
Cash flows provided by operating activities	39 499	8 627
INVESTMENT ACTIVITIES		
Proceeds from the sale of demand deposits in the General Fund of the Caisse de dépôt et placement du Québec	110 000	
Acquisition of term deposits		(2 000 000)
Cash flows provided by (used for) investment activities	110 000	(2 000 000)
FINANCING ACTIVITIES		
Change in individual sureties (Note 5)	(261 285)	464 966
Instalment to Consolidated Revenue Fund	(24 097)	
Cash flows (used for) provided by financing activities	(285 382)	464 966
DECREASE IN CASH ON HAND	(135 883)	(1 526 407)
CASH ON HAND, BEGINNING OF YEAR	293 467	1 819 874
CASH ON HAND, END OF YEAR	\$157 584	\$293 467

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGESNOTES TO THE FINANCIAL STATEMENTS
March 31, 2007**1. COMPOSITION AND OPERATION**

The Cautionnements individuels des agents de voyages consists of surety in an amount 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 surety is to guarantee compliance with the Act and its regulations.

Investment income earned from cash deposited as individual sureties 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

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

Bonds on deposit

Bonds deposited as individual surety 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 in the fiscal year ended March 31, 2007 totalled \$202 936 (2006: \$311 100) and disposals totalled \$271 605 (2006: \$51 623).

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 composed of units that are refunded with prior notice in accordance with the terms of payment of the Caisse at the market value of the fund's net equity at months' end.

	<u>2007</u>	<u>2006</u>
Number of units	978	978
Cost of units	\$954 383	\$954 383
Fair value of units	\$1 125 100	\$1 100 002
Fair value per unit	\$1 150	\$1 125

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. INDIVIDUAL SURETIES OF TRAVEL AGENTS

	2007	2006
Sureties in force		
Balance, beginning of year	\$4 517 544	\$3 793 101
Surety deposited	526 144	990 288
	<u>5 043 688</u>	<u>4 783 389</u>
Claims and trust fees	(31 432)	(6 205)
Surety refunded	(674 666)	(179 640)
Bonds returned and replaced by individual guarantee policies	<u>(170 000)</u>	<u>(230 000)</u>
	<u>(876 098)</u>	<u>(415 845)</u>
Balance, end of year	4 167 590	4 367 544
Prepaid sureties*	<u>20 000</u>	<u>150 000</u>
	<u>\$4 187 590</u>	<u>\$4 517 544</u>

* Prepaid sureties include cash sureties received for licences that were not valid at fiscal year-end.

The net change in sureties for the fiscal year totalled \$329 954 (2006: \$724 443) and includes operations with no impact on cash flows concerning bonds received on deposit and whose net change represented \$68 669 at March 31, 2007 (2006: \$259 477).

Surety provided by travel agents in the form of individual guarantee policies was estimated at \$36 528 001 at March 31, 2007 (March 31, 2006: \$35 699 000) with \$31 218 000 having a valid permit at March 31, 2007 (March 31, 2006: \$30 739 000). This estimate includes guarantee policies from agencies that ceased operating in the last two years and are still liable for claims.

6. FINANCIAL INSTRUMENTS

Short-term assets and liabilities are financial instruments whose fair value is close to their book value, given that they mature in the short term.

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 Cautionnements individuels des agents de voyages 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. Management 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. Most of these operations are not shown separately in the financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES**MANAGEMENT'S REPORT**

The financial statements of the Cautionnements individuels des agents de voyages were prepared by management, which is responsible for their preparation, presentation and the significant estimates and judgments included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information contained in the rest of the Office de la protection du consommateur's annual activity report concurs with the information disclosed in the financial statements.

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

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 audited the Cautionnements individuels des agents de voyages' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

André Derome
Coordinator, Licensing Department

Yvan Turcotte
President, Office de la protection
du consommateur

Québec, June 29, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Cautionnements individuels des agents de voyages as at March 31, 2007 and the statement of operations and cumulative surplus and cash flows for the year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cautionnements individuels des agents de voyages as at March 31, 2007, and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 29, 2007

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

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Research and development		
Gouvernement du Québec contribution	\$13 250 000	\$13 500 000
Outside clients	<u>2 885 082</u>	<u>2 012 790</u>
	16 135 082	15 512 790
Services		
Gouvernement du Québec contract	8 000 000	8 000 000
Outside clients	<u>6 885 383</u>	<u>7 807 349</u>
	14 885 383	15 807 349
Rental income	596 046	656 194
Other		
Gouvernement du Québec contribution	155 726	160 290
Miscellaneous revenue	<u>233 490</u>	<u>255 220</u>
	985 262	1 071 704
	<u>32 005 727</u>	<u>32 391 843</u>
EXPENSES		
Salaries and fringe benefits	19 436 141	20 218 657
Direct project costs	3 698 905	3 660 332
Building occupancy costs	3 643 907	3 158 458
Operating costs	2 505 505	2 171 013
Financial costs	565 970	712 633
Amortization		
Capital assets	1 678 832	1 671 955
Intangible assets	<u>414 455</u>	<u>499 781</u>
	31 943 715	32 092 829
NET INCOME	62 012	299 014
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(16 037 030)</u>	<u>(16 336 044)</u>
CUMULATED DEFICIT, END OF YEAR	<u><u>\$(15 975 018)</u></u>	<u><u>\$(16 037 030)</u></u>

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$4 618 281	\$3 521 308
Accounts receivable (Note 3)	2 728 463	3 707 820
Projects under way	919 847	1 250 736
Prepaid expenses	347 479	344 905
Inventory (Note 4)	715 697	597 412
	<u>9 329 767</u>	<u>9 422 181</u>
Long-term receivables (Notes 5 and 11))	1 059 750	1 220 289
Investments (Note 6)	147 383	147 383
Building for sale (Notes 7 and 11)	5 493 833	
Capital assets (Notes 8 and 11)	<u>10 496 602</u>	<u>17 140 347</u>
	<u>17 197 568</u>	<u>18 508 019</u>
	<u><u>\$26 527 335</u></u>	<u><u>\$27 930 200</u></u>
LIABILITIES		
Current liabilities		
Bank loan (Note 9)	\$1 956 660	\$3 843 240
Accounts payable and accruals (Note 10)	6 454 248	6 522 562
Deferred revenue	1 417 257	993 157
Instalments on long-term debt (Note 11)	6 958 626	6 659 133
	<u>16 786 791</u>	<u>18 018 092</u>
Long-term debt (Note 11)	703 373	819 565
Deferred credits	<u>538 049</u>	<u>655 433</u>
	<u>1 241 422</u>	<u>1 474 998</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 12)	24 474 140	24 474 140
Cumulated deficit	<u>(15 975 018)</u>	<u>(16 037 030)</u>
	<u>8 499 122</u>	<u>8 437 110</u>
	<u><u>\$26 527 335</u></u>	<u><u>\$27 930 200</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Georges Archambault
André Bazergui

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Net income	\$62 012	\$299 014
Adjustments for:		
Depreciation of capital assets	1 678 832	1 671 955
Amortization of intangible assets	414 455	499 781
Amortization of deferred credits	(117 384)	(117 385)
Loss on sale of capital assets	2 211	17 759
Loss of value of intangible assets	264 113	120 636
Gain on sale of investment		(61 749)
Interest capitalized in advance by the Ministère des Finances	297 295	232 157
Change in non-cash items related to operations (Note 13)	2 337 524	628 891
Cash flows related to operating activities	4 939 058	3 291 059
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(1 857 620)	(1 536 881)
Proceeds from sale of capital assets	16 109	14 622
Cash flows related to investment activities	(1 841 511)	(1 522 259)
FINANCING ACTIVITIES		
Repayment of long-term debt	(113 994)	(66 212)
Decrease in bank borrowing	(3 843 240)	(3 889 520)
Increase in bank borrowing	1 956 660	3 843 240
Cash flows related to financing activities	(2 000 574)	(112 492)
NET INCREASE IN CASH ON HAND	1 096 973	1 656 308
CASH ON HAND, BEGINNING OF YEAR	3 521 308	1 865 000
CASH ON HAND, END OF YEAR	\$4 618 281	\$3 521 308

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2007

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 Centre is not subject to income taxes.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Significant estimates include the service life of fixed assets, provisions and certain expenses payable. Management is of the opinion that these estimates are adequate. Real results may differ from these estimates.

Rental income

The Centre records basic rent using the straight-line method over the duration of the rental contracts. The surplus of rent posted over amounts collected under rental contracts is presented under accounts receivable in the balance sheet. Some rental contracts include conditions requiring tenants to reimburse a proportional share of property taxes. These amounts are recorded in the period in which the related expenses were incurred.

Proceeds reporting

Proceeds and profits from contracts are recorded using the percentage of completion method, determined using the value of labour invoiced and purchases charged to contracts versus total estimated value. Events that are as yet unknown could arise and change these estimates.

Current projects

Current projects represent surplus costs and profits recognized for contracts under way over amounts invoiced.

- Outside projects: When the total estimated cost is higher than the amount that can be recovered, the surplus is recorded as a fiscal-year loss.
- Research projects carried out in partnership: the cost of performing work in research projects carried out in partnership is recorded in the fiscal year in which they were incurred.

Inventory

Stocks are recorded at the lesser value (cost – net realization value). Their cost is calculated using the FIFO 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.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Capital assets**

Capital assets are recorded at cost.

The building located on land belonging to the Ville de Québec is amortized using the straight-line method over the 38-year period for 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%

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

Equipment purchased for the Centre's R&D projects is not capitalized but charged to the cost of the project concerned and invoiced to clients.

Intangible assets

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

	<u>Method</u>	<u>Rate</u>
Patents and right to use generic technologies	Straight-line	20%
Software	Diminishing balance	30%

Deferred revenue

Deferred revenue represents the surplus of the amounts invoiced for contracts under way over the costs and profits recognized. It also includes clients' deposits cashed in advance in keeping with contractual 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 inter-enterprise government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Currency conversion

Monetary assets and liabilities in foreign currency are converted at the exchange rate in effect the date of the balance sheet. All other assets and liabilities are converted at the historic rate. Revenues and expenses are converted at the exchange rate in effect the date of the transaction. Exchange gains or losses are included in the fiscal year's results.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. ACCOUNTS RECEIVABLE**

	2007	2006
Clients	\$1 935 005	\$2 916 768
Gouvernement du Québec	667 400	667 400
Short-term portion of long-term receivables (Note 5)	126 058	123 652
	<u>\$2 728 463</u>	<u>\$3 707 820</u>

4. INVENTORY

	2007	2006
Parts and supplies	\$81 631	\$88 695
Products*	634 066	508 717
	<u>\$715 697</u>	<u>\$597 412</u>

* At March 31, 2006, the Centre depreciated product inventories by a \$170 782. There was no depreciation in 2007.

5. LONG-TERM RECEIVABLES

	2007	2006
Advance on wages to employees (*)	\$373 161	\$426 219
Subsidy receivable – Gouvernement du Québec (**)	812 647	917 722
	1 185 808	1 343 941
Short-term portion	(126 058)	(123 652)
	<u>\$1 059 750</u>	<u>\$1 220 289</u>

(*) An advance equal to two weeks' pay was granted all employees to enable the Centre to defer pay day by two weeks. This advance bears no interest and is repayable on each employee's departure.

(**) Contribution receivable at a fixed rate of 4.58% cashable in quarterly instalments of \$71 709 until April 1, 2013 (Note 11).

6. INVESTMENTS

	2007	2006
Investment in a satellite corporation: Intellium Technologies inc., (50% share)*		
Other investments		
Shares in a public corporation	\$147 383	\$147 383
	<u>\$147 383</u>	<u>\$147 383</u>

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

- 500 000 class B, voting and participating shares (2006: 500 000);
- 500 000 class C, non-voting and non-participating shares, redeemable (2006: 500 000).

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**6. INVESTMENTS (cont'd)**

This entire investment was depreciated in 2004.

In keeping with agreements signed between the Fonds de solidarité des travailleurs du Québec should Intellium cease 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.

7. BUILDING FOR SALE

In August 2006, the Centre received and signed a purchase offer for one of its Montréal buildings. The sale is conditional on certain approvals that should be obtained in June 2007. The building is shown at book value because the latter is lower than the proceeds from the net sale expected.

For this transaction, an environmental study was conducted and revealed remedial measures required. A \$564 100 provision for environmental compliance was posted and is shown in the balance sheet under Accounts payable and accruals and under Building occupancy costs in the statement of operations.

8. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Capital assets			
Land	\$1 239 436		\$1 239 436
Building and land improvement*	8 455 403	\$6 007 871	2 447 532
	9 694 839	6 007 871	3 686 968
Furniture and equipment	22 381 746	17 258 995	5 122 751
Data processing equipment	7 429 882	6 502 542	927 340
Automobile equipment	272 334	201 286	71 048
	39 778 801	29 970 694	9 808 107
			15 796 355
Intangible assets			
Patents and right to use generic technologies**	920 289	571 215	349 074
Software	3 824 271	3 484 850	339 421
	4 744 560	4 056 065	688 495
	\$44 523 361	\$34 026 759	\$10 496 602
			\$17 140 347

* The Centre acquired the right to use land belonging to the Ville de Québec. A building, with a net book value of \$715 410 as at March 31, 2007 (2006: \$746 181) will be transferred to the latter at no cost on July 24, 2030.

At March 31, 2007, the net book value of the land and buildings was \$9 180 801, including the building for sale shown in Note 7 (2006: \$9 333 814), whereas municipal assessments total \$24 492 300 (2006: \$22 400 700).

** During the fiscal year, the Centre posted depreciation of \$264 113 (2006: \$120 636) for one of its intangible assets shown under the heading Patents and right to use generic technologies. This loss in value is shown under Operating costs in the statement of operations.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. BANK LOAN**

At March 31, 2007, the Centre had an authorized credit line of \$4 M, renewable annually. Amounts used in the form of bankers' acceptances, maturing July 9, 2007, bear interest at the fixed rate of 4.37% (2006: 4.08%, matured January 5, 2007).

10. ACCOUNTS PAYABLE AND ACCRUALS

	2007	2006
Suppliers and other accrued liabilities	\$2 341 350	\$2 411 491
Salaries and fringe benefits	1 788 382	1 842 921
Provision for vacation time	2 170 516	2 249 397
Severance pay	154 000	18 753
	<u>\$6 454 248</u>	<u>\$6 522 562</u>

11. LONG-TERM DEBT

	2007	2006
Advance from the Ministère des Finances bearing interest at the National Bank of Canada's prime rate of 6% (5.5% in 2006), maturing on March 31, 2008. The interest is capitalized and payable no later than the date the advance expires	\$6 842 433	\$6 545 138
Note payable to the Financing Fund, fixed rate of 4.58%, repayable in semi-annual instalments of \$71 709 as of October 1, 2005, maturing April 1, 2013. A chattel mortgage without dispossession for the Gouvernement du Québec contribution receivable is given as surety	794 070	896 793
Borrowings at fixed rates of 1.90%, repayable in 60 monthly instalments of \$380, guaranteed, maturing at various dates until February 2010. Rolling stock is given as surety	<u>25 496</u> 7 661 999	<u>36 767</u> 7 478 698
Portion maturing within one year	<u>(6 958 626)</u>	<u>(6 659 133)</u>
	<u>\$703 373</u>	<u>\$819 565</u>

Interest charges on the long-term debt for the fiscal year total \$336 242 (2006: \$276 835) and include interest in the amount of \$297 295 (2006: \$232 157) on the Ministère des Finances advance that was capitalized during the fiscal year.

The capital payments to be made on the long-term debt over the next five fiscal years are:

2008	\$6 958 626
2009	121 338
2010	125 577
2011	123 121
2012	128 825

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**12. CAPITAL STOCK**

	<u>2007</u>	<u>2006</u>
Authorized 650 000 shares with a par value of \$100 each		
Issued and fully paid 244 741 shares	<u>\$24 474 140</u>	<u>\$24 474 140</u>

13. CASH FLOWS

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

	<u>2007</u>	<u>2006</u>
Debtors	\$979 357	\$299 287
Projects in progress	330 889	1 049 181
Inventory	(118 285)	233 560
Prepaid expenses	(2 574)	36 206
Long-term receivables	160 539	100 105
Accounts payable and accruals	563 498	(1 472 803)
Deferred revenue	<u>424 100</u>	<u>383 355</u>
	<u>\$2 337 524</u>	<u>\$628 891</u>

Interest paid during the fiscal year amounted to \$305 026 (2006: \$434 081).

At March 31, 2007, the item Accounts payable and accrued interest included capital asset acquisitions of \$193 621 (2006: \$825 433).

14. PENSION PLANS

Centre staff participates 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 total \$848 796 (2006: \$860 200). The Centre's liability towards these Government plans is restricted to its employer contributions.

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Centre is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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 THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**16. FINANCIAL INSTRUMENTS****Fair value**

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

	2007		2006	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Long-term receivables	\$1 185 808	\$1 185 808 ⁽¹⁾	\$1 343 941	\$1 343 941 ⁽¹⁾
Investments	147 383	1 015 181	147 383	344 177
	<u>\$1 333 191</u>	<u>\$2 200 989</u>	<u>\$1 491 324</u>	<u>\$1 688 118</u>
Financial liabilities:				
Long-term debts (including short-term portion)	<u>\$7 661 999</u>	<u>\$7 691 945</u>	<u>\$7 478 698</u>	<u>\$7 506 017</u>

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

Interest risk

Interest rate volatility affects the fair value of the Centre's financial assets and liabilities (market risks linked to fixed interest rates), cash and cash equivalents (cash flow risks linked to variable interest rates).

The Ministère des Finances advance bears interest at a variable rate, resulting in a cash flow risk with respect to the interest paid on this debt.

The other long-term debts bear interest at fixed rates. Consequently, the Centre's risk exposure in their regard is minimal given that it plans to keep them until they mature.

Credit risk

The Centre's credit risk exposure corresponds to the accounting value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The Centre assesses these assets on an ongoing basis and posts a provision for losses when accounts are deemed uncollectible.

At March 31, 2007, the balance receivable from a client represented 17% of all debtors (2006: 2 clients represented 29%).

Exchange risk

The Centre carried out some of its transactions in foreign currency. It neither holds nor issues financial instruments to manage the risk to which it is exposed. However, these risks have no significant impact on its results and financial position.

17. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

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

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

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

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

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

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

Georges Archambault
President and Chief Executive Officer

Lionel Vézina, CA
Vice-President, Finance and Administration

Québec, May 9, 2007

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, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
for the Auditor General of Québec

Québec, May 9, 2007

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC
(R.S.Q., c. C-8.1.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007 (Note 25)
REVENUES (Note 22)	
Goods	\$62 117 670
Services	301 114 416
Discounts and rebates on sales	(6 842 974)
	<u>356 389 112</u>
Sales costs (Note 3)	<u>324 412 658</u>
GROSS PROFIT	31 976 454
Gouvernement du Québec subsidy	319 669
Other revenues	22 148
	<u>32 318 271</u>
OPERATING EXPENSES (Note 4)	<u>36 623 490</u>
Net loss before the following items	(4 305 219)
Gain on sale of capital assets	25 595
Loss on sale of capital assets	(103 092)
Loss on sale of intangible assets with a jointly-controlled entity	(2 028 494)
	<u>(2 028 494)</u>
NET LOSS FOR THE FISCAL YEAR	(6 411 210)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>6 255</u>
CUMULATED DEFICIT BEFORE TRANSFER	(6 404 955)
Transfer of a portion of the Gouvernement du Québec contribution to eliminate the cumulated deficit (Note 18)	6 404 955
	<u>6 404 955</u>
CUMULATED SURPLUS, END OF YEAR	<u><u> </u></u>
Results by activity sector (Note 26)	

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$12 531 628	\$9 384 464
Accounts payable (Note 5)	123 166 834	105 411 393
Inventory (Note 6)	7 872 388	7 668 812
Capital assets destined for sale	11 548	
Prepaid expenses	14 192 864	15 021 813
	<u>157 775 262</u>	<u>137 486 482</u>
Long-term accounts payable (Note 7)	3 602 376	
Instrument receivable from the Gouvernement du Québec (Note 8)	11 464 513	12 859 455
Capital assets (Note 9)	121 446 845	102 867 159
Intangible assets (Note 10)	158 643 841	156 405 310
Deferred expenses	<u>8 879 433</u>	<u>1 863 246</u>
	<u>\$461 812 270</u>	<u>\$411 481 652</u>
LIABILITIES		
Current liabilities		
Short-term borrowings (Note 11)	\$288 344 224	\$253 470 858
Notes payable (Note 12)		6 303 105
Obligation resulting from a capital-lease contract (Note 13)	3 347 574	
Accounts payable and accrued liabilities (Note 14)	71 706 528	61 612 826
Instalments on the long-term debt (Note 15)	184 782	296 782
Prepaid proceeds (Note 16)	<u>5 466 596</u>	<u>3 386 530</u>
	<u>369 049 704</u>	<u>325 070 101</u>
Long-term accounts payable (Note 17)	9 252 376	
Long-term debt (Note 15)	21 022 157	21 206 939
Prepaid proceeds (Note 16)	133 522	204 565
Provision for sick leave	<u>19 003 332</u>	<u>15 237 658</u>
	<u>418 461 091</u>	<u>361 719 263</u>
EQUITY		
Gouvernement du Québec contribution (Note 18)	43 351 179	49 756 134
Cumulated surplus		6 255
	<u>43 351 179</u>	<u>49 762 389</u>
	<u>\$461 812 270</u>	<u>\$411 481 652</u>
COMMITMENTS (Note 19)		
SUBSEQUENT EVENT (Note 24)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Robert Marcotte, Chairman of the Board of Directors
Diane Jean, President-CEO

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007 (12 months)	2006 (4 months)
OPERATING ACTIVITIES		
(Net loss) Net revenues for the year	\$(6 411 210)	\$6 255
Items not affecting cash flows		
Amortization of capital assets	11 153 912	1 632 657
Amortization of intangible assets	8 204 077	3 038 582
Financial costs capitalized for the obligation resulting from a capital-lease contract	6 100	
Financial costs capitalized for short-term borrowings	6 706 262	
Gain on sale of capital assets	(25 595)	
Loss on sale of capital assets	103 092	
Loss on sale of intangible assets	2 028 494	1 617 245
	<u>21 765 132</u>	<u>6 294 739</u>
Change in non-cash items related to operations (Note 20)	<u>7 066 275</u>	<u>(20 702 998)</u>
Cash flows for (from) operating activities	<u>28 831 407</u>	<u>(14 408 259)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(24 531 606)	(9 277 022)
Acquisition of intangible assets	(18 878 877)	(11 890 379)
Proceeds from sale of capital assets	75 482	
Cash flows for investment activities	<u>(43 335 001)</u>	<u>(21 167 401)</u>
FINANCING ACTIVITIES		
Net increase in short-term borrowings excluding financial costs capitalized	24 250 645	27 893 150
Net repayment of notes payable	(6 303 105)	1 726 699
Long-term debt repayment	(296 782)	
Cash flows from financing activities	<u>17 650 758</u>	<u>29 619 849</u>
DECREASE IN CASH AND CASH EQUIVALENTS (Note 20)	3 147 164	(5 955 811)
CASH ON HAND, BEGINNING OF YEAR	<u>9 384 464</u>	<u>15 340 275</u>
CASH ON HAND, END OF YEAR	<u><u>\$12 531 628</u></u>	<u><u>\$9 384 464</u></u>

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Centre de services partagés du Québec is a legal person, created under the Act respecting the Centre de services partagés du Québec (R.S.Q., c. C-8.1.1), which came into effect on December 6, 2005, and mandated by the State to provide or make available to public bodies the property and administrative services they require to exercise their duties, especially human, financial, physical and informational resources.

In pursuing its mission, the Centre may exercise duties and render services that include:

- 1) purchasing and leasing movable property for public bodies;
- 2) promoting reuse within public bodies, and disposing of property when it is no longer needed;
- 3) developing, supplying, managing and maintaining products and services related to information technology and telecommunications;
- 4) developing and providing resource management business solutions;
- 5) providing any other service, professional or otherwise, which public bodies may require, such as printing, publishing, marketing, media booking, audiovisual services, exhibitions, reprography, mail and equipment maintenance;
- 6) amalgamating services and managing them; and
- 7) managing copyrights on the documents held by public bodies, in accordance with the standards established jointly by the Minister of Culture and Communications and the Minister of Government Services, and seeing that they are complied with.

The incorporating legislation states that sums received by the Centre must be used to pay its obligations. Any surplus is kept by the Centre unless the government decides otherwise.

Under section 2 of its incorporating legislation, the Centre is an agent of the State as, as such, is not subject to Québec or Canadian income taxes.

2. ACCOUNTING POLICIES

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

Inventory

Stocks are evaluated at cost, calculated using the FIFO method, or net realization value, whichever is less. The cost of products under way includes raw materials, labour and overall manufacturing costs.

Capital assets

Capital assets are recorded at cost and amortized over their service life in accordance with the straight-line method over the following periods:

Specialized equipment	Maximum 15 years
Radio communications infrastructure	Maximum 20 years
Data processing equipment	Maximum 5 years
Office furniture and equipment	Maximum 5 years
Rolling stock	Maximum 5 years
Leasehold improvements	Maximum 10 years
Computer equipment for SAGIR project	Maximum 10 years

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

The Centre regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. If the book value exceeds the estimated recoverable amount, depreciation corresponding to the surplus book value over fair value is posted to results. Estimating future cash flows and determining fair value requires exercising professional judgement and may vary over time.

Intangible assets

Intangible assets, comprising computer systems, software and computer system developments, are recorded at cost, including direct labour, interest and other costs directly related to system development. They are amortized over their expected service life in accordance with the straight-line method as indicated below. They undergo a depreciation test when changes in the situation show that their book value cannot be covered. Any surplus book value over fair value is posted to results for the period for which the depreciation was determined.

Computer systems and software	Maximum 5 years
Integrated resource management business strategy - Phase 1 (SAGIR-SGR1)	12 years

Computer systems development costs are amortized when they become operational.

Interest on debts linked to computer system developments is capitalized in the development period.

Deferred expenses

Deferred expenses comprise primarily royalties from permit sales amortized in keeping with estimated future revenues, a deposit, prepaid amounts on maintenance contracts amortized in accordance with the straight-line method over the contracts' duration and start-up costs amortized in accordance with the straight-line method over 3 years.

Sick leave and vacation time

The obligations arising from sick leave and vacation time owed to the Centre's employees are posted to liabilities. The annual expense is posted according to the benefits earned by employees during the fiscal year.

Pension plans

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

Revenue reporting

Revenue resulting from the delivery of services and sale of goods is recorded once the following conditions have been met:

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

Prepaid revenue is transferred to results as services are rendered.

CENTRE DE SERVICES PARTAGÉS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Cash and cash equivalents**

It is the Centre's policy to present bank balances and investments that are easy to convert in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. SALES COSTS

	2007 (Note 25)
COSTS OF GOODS SOLD	
Inventory, beginning of year (Note 6)	\$3 724 165
Purchases	44 363 399
Salaries and fringe benefits	2 400 661
Transport and communications	77 208
Mail and messenger services	121 775
Professional and ancillary services	4 355 556
Maintenance and repairs	48 718
Furnishings and supplies	54 646
Rent	703 967
Discounts and rebates on sales	(306 886)
Amortization of capital assets	88 743
Amortization of intangible assets	143 377
	55 775 329
Inventory, end of year (Note 6)	(4 728 749)
	51 046 580
COST OF SERVICES RENDERED	
Inventory, beginning of year (Note 6)	3 944 647
Salaries and fringe benefits	49 756 182
Transport et communications	66 470 791
Media ads	31 492 228
Mail and messenger services	10 145 875
Professional and ancillary services	31 612 436
Maintenance and repairs	22 109 894
Furnishings and supplies	21 940 507
Rent	15 113 527
Discounts and rebates on purchases	(495 145)
Amortization of capital assets	9 896 078
Amortization of intangible assets	7 789 850
Financial costs	6 706 262
Other	26 585
	276 509 717
Inventory, end of year (Note 6)	(3 143 639)
	273 366 078
	<u>\$324 412 658</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. ACCOUNTS RECEIVABLE

	<u>2007</u> (Note 25)
SALES COSTS	
Salaries and fringe benefits	\$6 490 217
Transport et communications	149 810
Media ads	617 452
Mail and messenger services	1 606 320
Professional and ancillary services	119 455
Maintenance and repairs	120 026
Furnishings and supplies	225 913
Rent	116 238
Amortization of capital assets	22 987
Amortization of intangible assets	90 784
	<u>9 559 202</u>
ADMINISTRATIVE EXPENSES	
Salaries and fringe benefits	15 043 940
Administrative expenses invoiced by the Gouvernement du Québec	1 457 344
Transport and communications	1 126 331
Media ads	17 262
Mail and messenger services	181 340
Professional and ancillary services	2 376 607
Maintenance and repairs	1 318 004
Furnishings and supplies	1 695 989
Rent	865 984
Amortization of capital assets	1 146 104
Amortization of intangible assets	180 066
Financial costs	676 587
Other	978 730
	<u>27 064 288</u>
	<u><u>\$36 623 490</u></u>

5. ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
Customer accounts (Note 22)	\$114 075 733	\$49 954 221
Gouvernement du Québec	896 315	45 432 487
Short-term portion of long-term accounts receivable (Note 7)	2 401 584	
Short-term portion of Gouvernement du Québec note receivable (Note 8)	5 116 063	8 787 917
Other	677 139	1 236 768
	<u>\$123 166 834</u>	<u>\$105 411 393</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**6. INVENTORY**

	<u>2007</u>	<u>2006</u>
Goods intended for sale		
Furnishings and furniture	\$1 534 120	\$1 757 271
Publications	2 944 289	1 616 325
Publication products under way	<u>250 340</u>	<u>350 569</u>
	<u>4 728 749</u>	<u>3 724 165</u>
Goods intended for performing services		
Photocopying raw materials	163 693	199 111
Postal values	2 040 142	2 468 888
Telephone	169 044	1 099 223
Computer inventory	<u>770 760</u>	<u>177 425</u>
	<u>3 143 639</u>	<u>3 944 647</u>
	<u><u>\$7 872 388</u></u>	<u><u>\$7 668 812</u></u>

7. LONG-TERM ACCOUNTS RECEIVABLE

Long-term accounts receivable involve the distribution of Oracle software, cashable in annual payments of \$1 200 792, interest-free, maturing May 1, 2010.

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$6 003 960	
Short-term portion included under "Accounts receivable" (Note 5)	<u>2 401 584</u>	
	<u><u>\$3 602 376</u></u>	

8. GOUVERNEMENT DU QUÉBEC NOTE RECEIVABLE

The Gouvernement du Québec note receivable is interest-free and matures in March 2013. It represents amounts to be transferred to the Centre for banks of sick leave and vacation time earned by employees before they were transferred.

	<u>2007</u>	<u>2006</u>
Note receivable	\$16 580 576	\$21 647 372
Note receivable in the short term included under "Accounts receivable" (Note 5)	<u>5 116 063</u>	<u>8 787 917</u>
Note receivable in the long term	<u><u>\$11 464 513</u></u>	<u><u>\$12 859 455</u></u>

The Gouvernement du Québec note receivable is encashable as follows:

2008	\$5 116 063
2009	3 355 181
2010	3 257 957
2011	2 971 901
2012	1 698 467
2013	<u>181 007</u>
	<u><u>\$16 580 576</u></u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE INANCIAL STATEMENTS (cont'd)
March 31, 2007**9. CAPITAL ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net value
Specialized equipment	\$21 432 580	\$18 423 784	\$3 008 796
Radio communications infrastructure	8 755 747	3 381 472	5 374 275
Data processing equipment	47 220 592	34 376 523	12 844 069
Office furniture and equipment	1 819 365	1 132 740	686 625
Automotive equipment	1 139 867	800 428	339 439
Leasehold improvements	6 619 183	4 795 589	1 823 594
Computer equipment leased under a capital-lease contract	3 341 474		3 341 474
Computer equipment for the SAGIR project	11 425 292	6 942 042	4 483 250
RENIR project under way ¹	89 545 323		89 545 323
	<u>\$191 299 423</u>	<u>\$69 852 578</u>	<u>\$121 446 845</u>
			<u>\$102 867 159</u>

The capitalized financial costs for capital assets for the fiscal year totalled \$2 986 772 (2006: \$694 232).

- 1 Investments comprise mainly terminal and radiocommunications networks for the RENIR (Réseau national intégré de radiocommunication) project, which will be amortized when they are considered virtually completed.

10. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Computer systems and software	\$35 467 217	\$28 483 477	\$6 983 740
SAGIR-SGR1	129 462 383	2 237 206	127 225 177
Computer systems development: ¹			
SAGIR project	23 736 186		23 736 186
Other computer systems	698 738		698 738
	<u>\$189 364 524</u>	<u>\$30 720 683</u>	<u>\$158 643 841</u>
			<u>\$156 405 310</u>

The capitalized financial costs for intangible assets for the fiscal year totalled \$929 687 (2006: \$1 796 954).

- 1 Investment for the SAGIR (Stratégie d'affaires en gestion intégrée des ressources) project and other computer systems will be amortized when they are considered virtually completed.

11. SHORT-TERM BORROWINGS

The Gouvernement du Québec authorized the Centre by Order-in-Council to borrow up to \$450 million from the Financing Fund or a financial institution until March 31, 2009.

On the date of the balance sheet, the Centre has credit facilities with the Financing Fund up to a maximum of \$450 million bearing interest at the average 30-day banker's acceptance rate plus 0.3%, guaranteed by the Gouvernement du Québec. The rate at March 31, 2007 was 4.65% (2006: 4.17%).

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**12. NOTES PAYABLE**

In 2006, notes payable to the Financing Fund bore interest at 3.84% and 3.86%.

13. OBLIGATION RESULTING FROM A CAPITAL-LEASE CONTRACT

Minimum payments required under a capital-lease contract for computer equipment are \$3 347 574 payable in the fiscal year ending on March 31, 2008. Theoretical interest of \$85 239 at a rate of 4.65% is added to this amount. This contract includes an option to buy at a discounted price at term.

14. ACCOUNTS PAYER AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	\$55 818 167	\$50 845 523
Gouvernement du Québec	1 477 147	2 117 544
Salaries and fringe benefits payable	3 128 045	983 201
Vacation time payable	8 293 472	6 574 040
Short-term portion of long-term accounts payable (Note 17)	2 150 792	
Other	838 905	1 092 518
	<u>\$71 706 528</u>	<u>\$61 612 826</u>

15. LONG-TERM DEBT

	2007	2006
Amount owed to the Gouvernement du Québec		
Interest-free, no terms of repayment	\$20 229 859	\$20 229 859
Interest-free, repayable with the annual amortization charge on assets transferred	977 080	1 273 862
	<u>21 206 939</u>	<u>21 503 721</u>
Instalments payable in the short term	184 782	296 782
	<u>\$21 022 157</u>	<u>\$21 206 939</u>

Payments of principal over the next 5 fiscal years and subsequent fiscal years on the \$977 080 owing to the Gouvernement du Québec are:

2008	\$184 782
2009	180 703
2010	180 703
2011	180 473
2012	159 714
2013 and thereafter	90 705
	<u>\$977 080</u>

16. PREPAID REVENUE

	2007	2006
Prepaid revenue	\$5 600 118	\$3 591 095
Short-term prepaid revenue	5 466 596	3 386 530
Long-term prepaid revenue	<u>\$133 522</u>	<u>\$204 565</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**17. LONG-TERM ACCOUNTS PAYABLE**

	<u>2007</u>	<u>2006</u>
Accounts payable for the distribution of Oracle software		
Equal annual instalments of \$1 200 792, interest-free, ending on May 1, 2010	\$4 803 168	
Annual instalments varying from \$950 000 to \$2 300 000, interest-free, ending on June 1, 2010	<u>6 600 000</u>	
	11 403 168	
Instalments payable in the short term (Note 14)	<u>2 150 792</u>	
	<u>\$9 252 376</u>	

18. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$49 756 134	\$49 756 134
Transfer at March 31, 2007 to eliminate the cumulated deficit	<u>(6 404 955)</u>	
Balance, end of year	<u>\$43 351 179</u>	<u>\$49 756 134</u>

The Centre is authorized to use part of the Gouvernement du Québec contribution to eliminate the cumulated deficit up to \$14.8 million for fiscal 2006-2007. The initial contribution was composed of surpluses cumulated by the Fonds des services gouvernementaux and the Fonds de l'information gouvernementale at December 5, 2005.

19. COMMITMENTS**RENIR project**

To bring this project to term, the Centre has made contractual commitments with various suppliers in the form of service contracts for project design, performance and implementation and for the acquisition of equipment needed for its deployment, in the amount of \$12 534 262 broken down as:

2008	\$11 904 941
2009	280 253
2010	198 708
2011	74 711
2012	<u>75 649</u>
	<u>\$12 534 262</u>

Leasing contracts

The Centre has made commitments under various leasing contracts for automotive equipment and photocopiers for minimum payments of \$3 444 498 broken down as:

2008	\$1 716 464
2009	959 297
2010	429 516
2011	177 368
2012	161 610
2013	<u>243</u>
	<u>\$3 444 498</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**19. COMMITMENTS (cont'd)****Other**

The Centre has also contracted other commitments for maintenance and printing services, acquisition of inventories and capital assets for a total of \$19 119 330 broken down as:

2008	\$14 700 333
2009	2 093 030
2010	1 126 124
2011	1 199 843
	<u>\$19 119 330</u>

20. CASH FLOWS

Interest paid by the Centre during the fiscal year totalled \$677 989 (2006: \$53 550).

Further, \$3 341 474 was invested in capital assets during the year in consideration for a long-term debt of the equivalent amount (2006: \$1 273 862).

Finally, during the fiscal year, capital assets and intangible assets were acquired for \$42 369 226 (2006: \$32 484 651), including \$6 268 944 for accounts payable and accrued liabilities at March 31, 2007 (2006: \$14 568 133). Disbursements totalling \$43 410 483 were made to purchase capital assets and intangible assets (2006: \$21 167 401).

Changes in the non-cash elements linked to operations

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$(19 025 711)	\$(13 880 165)
Inventory	(203 576)	(815 878)
Prepaid expenses	828 949	(8 822 364)
Long-term accounts receivable	(6 003 960)	
Gouvernement du Québec note receivable	5 066 796	(536 295)
Deferred expenses	(7 016 187)	1 456 231
Accounts payable and accrued liabilities	16 242 099	1 914 336
Prepaid revenues	2 009 023	80 815
Long-term accounts payable	11 403 168	
Provision for sick leave	3 765 674	(99 678)
	<u>\$7 066 275</u>	<u>\$(20 702 998)</u>

21. FUTURE FRINGE BENEFITS**Pension plans**

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

The Centre's contributions charged to the year-end statement amount to \$3 106 578 (2006: \$629 746). The Centre's liability towards these Government plans is restricted to its employer contributions.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Centre is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Centre did not 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 majority of the Centre's revenue is generated by operations with entities included in the Gouvernement du Québec's reporting entity.

23. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments represents a reasonable estimate of the fair value, given their pending maturity.

The fair value of long-term accounts receivable is estimated at \$5 618 663 and that of long-term accounts payable at \$10 382 844, given their values discounted at an interest rate of 4.65%.

The fair value of the Gouvernement du Québec note receivable cannot be assessed, given the absence of a market value for this type of asset.

The fair value of amounts owed to the Gouvernement du Québec equals their book value, given the absence of a means of repayment for one of the amounts and the absence of a market for the other.

Credit risk

The Centre's credit risk exposure corresponds to the accounting value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The Centre conducts an ongoing assessment of these assets and posts a provision for losses when accounts are deemed uncollectible.

Management deems that the Centre is not exposed to a significant credit risk, given that the cash and cash equivalents are invested in major financial institutions and given that the Centre does business with a large number of clients.

24. SUBSEQUENT EVENT

The Gouvernement du Québec's 2007-2008 Budget Speech of May 24, 2007 mentioned the privatization of five government services, three of which reported to the Centre. They are the RENIR, Fournitures et ameublement du Québec and Reprographie gouvernementale. The information available does not allow us to draw conclusions on the impact of this announcement.

25. COMPARATIVE FIGURES

The figures for 2006 have not been presented since the information given is not available in a comparable format.

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

26. RESULTS BY ACTIVITY SECTOR

	Computer resources	Integrated resource management business solutions	Financial resources
REVENUES	\$160 826 086	\$43 807 522	\$125 445
SALES COSTS	<u>145 497 603</u>	<u>39 897 692</u>	<u>289 615</u>
Gross profit	15 328 483	3 909 830	(164 170)
OTHER REVENUES	<u>465</u>	<u>56</u>	<u> </u>
	<u>15 328 948</u>	<u>3 909 886</u>	<u>(164 170)</u>
OPERATING EXPENSES			
Sales costs	3 127 345		
Administrative expenses	<u>16 452 533</u>	<u>1 173 132</u>	<u>4 955</u>
	<u>19 579 878</u>	<u>1 173 132</u>	<u>4 955</u>
(NET LOSS) NET GAIN BEFORE THE FOLLOWING ITEMS	(4 250 930)	2 736 754	(169 125)
Gain on sale of assets			
Loss on sale of assets	<u>(2 120 486)</u>	<u> </u>	<u> </u>
(NET LOSS) NET GAIN	<u>\$(6 371 416)</u>	<u>\$2 736 754</u>	<u>\$(169 125)</u>

The Centre's running costs are attributed to all activity sectors. These expenses are posted to activities only as of their second full fiscal year.

Acquisitions	Material and documentary resource services	Government means of communication and publications	Human resources	Intersectorial transactions	Total
\$22 842 920	\$82 594 198	\$49 036 945	\$7 442 992	\$(10 286 996)	\$356 389 112
23 305 793	75 132 827	43 369 290	7 206 834	(10 286 996)	324 412 658
(462 873)	7 461 371	5 667 655	236 158		31 976 454
1 000	340 296				341 817
(461 873)	7 801 667	5 667 655	236 158		32 318 271
456 705	3 101 756	2 873 396			9 559 202
486 235	4 857 431	3 776 834	313 168		27 064 288
942 940	7 959 187	6 650 230	313 168		36 623 490
(1 404 813)	(157 520)	(982 575)	(77 010)		(4 305 219)
	25 595 (11 100)				25 595 (2 131 586)
<u>\$(1 404 813)</u>	<u>\$(143 025)</u>	<u>\$(982 575)</u>	<u>\$(77 010)</u>		<u>\$(6 411 210)</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Centre de services partagés du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All financial information contained in the remainder of the annual report is consistent with that presented in the financial statements.

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

The Centre des services partagés du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

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

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

Diane Jean
President-CEO

Michel Charbonneau, CMA
Director General, Strategic Management Services

Québec, October 5, 2007

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Centre de services partagés du Québec as at March 31, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, October 5, 2007

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

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Contributions (Note 3)		
Ministère de l'Emploi et de la Solidarité sociale	\$33 700	\$33 700
Commission de la construction du Québec	905 000	1 005 000
Corporation des maîtres mécaniciens en tuyauterie du Québec	33 700	33 700
Régie du bâtiment du Québec	33 700	33 700
Ministère du Travail	100 000	100 000
Corporation des maîtres électriciens du Québec	33 700	33 700
Conseil du Trésor – Pay Equity	4 686	13 159
Other	1 898	2 479
	<u>1 146 384</u>	<u>1 255 438</u>
EXPENSES		
Salaries and fringe benefits	868 351	790 875
Transport and communications	58 571	49 830
Professional and administrative services	125 550	139 076
Maintenance and repairs	2 075	15 781
Rent	131 769	130 641
Materials and supplies	19 225	16 981
Depreciation of capital assets	24 626	83 635
	<u>1 230 167</u>	<u>1 226 819</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(83 783)	28 619
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>334 573</u>	<u>305 954</u>
CUMULATED SURPLUS, END OF YEAR	<u><u>\$250 790</u></u>	<u><u>\$334 573</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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$600	\$600
Accounts payable	3 694	16 853
Advances to the Consolidated Revenue Fund, interest-free, no repayment terms	<u>462 343</u>	<u>484 182</u>
	466 637	501 635
Capital assets (Note 5)	<u>101 130</u>	<u>112 056</u>
	<u>\$567 767</u>	<u>\$613 691</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$57 638	\$32 965
Provision for sick leave and vacation time (Note 6)	259 339	246 153
CUMULATED SURPLUS	<u>250 790</u>	<u>334 573</u>
	<u>\$567 767</u>	<u>\$613 691</u>

COMMITMENTS (Note 7)

The notes are an integral part of these financial statements.

Josette Béliveau
Construction Industry Commissioner

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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

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

The statement of cash flows is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Proceeds reporting

Contributions are reported in the fiscal year in which they are received or receivable if the amount can be reasonably estimated and if it is relatively certain that it will be received.

Capital assets

Capital assets are recorded at cost and depreciated over their respective service lives using the straight-line method and the following rates:

	<u>Rate</u>
Leasehold improvements	10%
Office automation and data processing equipment	20% and 33⅓%
Computer systems	20%

The Commissaire regularly examines its capital assets' book value, comparing it with the unrealized future cash flows that they should generate. Any surplus book value over 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 inter-enterprise government defined-benefit plans, given that the Commissaire lacks sufficient information to apply the accounting procedure for defined-benefit plans.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. CONTRIBUTIONS

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

- amounts paid by the Minister of Labour from the appropriations allocated annually for this purpose by the National Assembly;
- amounts paid by the Commission de la construction du Québec, Régie du bâtiment du Québec, 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 are determined, for each, by the Government;
- amounts collected from applying 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.

4. FINANCIAL INSTRUMENTS

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

5. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Leasehold improvements	\$134 320	\$54 696	\$79 624	\$93 056
Office automation and data processing equipment	75 777	54 271	21 506	19 000
	<u>210 097</u>	<u>108 967</u>	<u>101 130</u>	<u>112 056</u>
Intangible assets				
Computer systems	292 093	292 093		
	<u>\$502 190</u>	<u>\$401 060</u>	<u>\$101 130</u>	<u>\$112 056</u>

Disbursements related to acquisitions for the fiscal year totalled \$13 700 (2006: \$17 874).

6. FUTURE BENEFIT PAYMENTS

Pension plans

Commissaire staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan for Senior Officials (PPSO) or Pension Plan of Management Personnel (RRPE), inter-enterprise defined-benefit plans which include guaranteed payments upon retirement and death.

The Commissaire's contributions charged to the year-end statement amount to \$44 546 (2006: \$38 923). The Commissaire's liability towards these Government plans is restricted to its employer contributions.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

	2007			2006
	Sick leave	Vacation time	Total	Total
Opening balance	\$159 363	\$86 790	\$246 153	\$279 532
Charge for the year	10 491	85 244	95 735	76 941
Benefits paid during the year	(1 962)	(80 587)	(82 549)	(110 320)
Closing balance	<u>\$167 892</u>	<u>\$91 447</u>	<u>\$259 339</u>	<u>\$246 153</u>

7. COMMITMENTS

The Commissaire committed to paying certain sums under a service agreement with the Ministère de l'Emploi et de la Solidarité sociale expiring March 31, 2009. These commitments total \$200 000 and include the following instalments over the next two fiscal years: 2008: \$100 000; 2009: \$100 000.

The Commissaire also committed to paying \$317 981 under office space rental leases, which expire in October 2007 and January 2011 with an option to renew on expiry. A clause provides for rent review to reflect increased operating costs or taxes.

Instalments over the next four fiscal years, based on rental amounts at March 31, 2007, are:

2008	\$102 824
2009	75 938
2010	75 938
2011	<u>63 281</u>
	<u>\$317 981</u>

8. 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.

9. TRANSFER OF RESPONSIBILITIES FROM THE COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

The Act to amend the Labour Code and other legislative provisions (2006, c. 58) was assented on December 14, 2006. It abolishes the office of Commissaire de l'industrie de la construction, transfers recourses and integrates Commissaire staff into the Commission des relations du travail. These provisions come into effect on the date or dates set by the Government.

10. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

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

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

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

The 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the management to discuss any matter related to the audit.

Josette Béliveau
Construction Industry Commissioner

Québec, June 11, 2007

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, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Commissaire's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commissaire as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 11, 2007

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

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	43 627 179	38 476 710
Employer contributions fund	65 148	7 094
Supplemental pension plans fund	531 977	445 128
	<u>44 224 304</u>	<u>38 928 932</u>
Accounts receivable		
Employee contributions	118 191	120 929
Employer contributions	4 935	4 305
Amounts receivable from the Gouvernement du Québec	64 831	80 182
Amounts receivable – transfers	3 235	3 812
	<u>191 192</u>	<u>209 228</u>
Cash on hand	6 503	7 819
	<u>44 421 999</u>	<u>39 145 979</u>
LIABILITIES		
Contribution refunds and pensions payable	17 560	16 181
Surplus employee contributions to be refunded	27 008	27 007
Administrative expenses payable	11 813	9 679
Owed to the Gouvernement du Québec		
- current account	3 089	1 362
	<u>59 470</u>	<u>54 229</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u>44 362 529</u>	<u>39 091 750</u>

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

COMMITMENTS (Note 10)

SUBSEQUENT EVENTS (Note 11)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement
Plan Accounting

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

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	860 825	849 183
Contributions of independent employers	84 055	87 176
Transfers of funds accumulated in a supplemental retirement plan	47 627	
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	1 621 839	1 460 339
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	3 807 212	3 190 756
Interest income	3 017	2 844
	<u>6 424 575</u>	<u>5 590 298</u>
Amounts received or receivable from the Gouvernement du Québec		
Regular service	1 002 917	892 464
Transferred service	198 802	190 387
	<u>1 201 719</u>	<u>1 082 851</u>
	<u>7 626 294</u>	<u>6 673 149</u>
DECREASE IN NET ASSETS		
Benefits paid		
General plan		
Pensions	2 009 953	1 777 646
Contribution refunds, including interest	44 102	76 267
Transfers, including interest	128 317	60 377
Transfer of contributions cumulated by those targeted, including interest to Pension Plan of Management Personnel	111 684	118 439
Supplemental pension plans		
Pensions	22 262	20 990
Contribution refunds, including interest	275	340
Transfers, including interest	166	95
Administrative expenses	38 756	41 376
	<u>2 355 515</u>	<u>2 095 530</u>
NET INCREASE FOR THE YEAR	5 270 779	4 577 619
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>39 091 750</u>	<u>34 514 131</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>44 362 529</u>	<u>39 091 750</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(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 employee designated by the Government.

b) Funding

Benefits for regular service are funded by contributors, the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after this date. However, additional 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 by the Government.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to plan administration are assumed by the RREGOP and divided equally between the employee and employer contribution funds.

c) Retirement benefits

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

Contributors are entitled to pension benefits without an actuarial reduction at age 55.

The pension is obtained by multiplying the average pensionable earnings for the five best-paid years by 2% per year of service. It can be added to pension credits acquired by redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluations of certain years of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner age 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. If there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, if applicable.

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is/are entitled to a refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is/are entitled to the refund of contributions, plus interest, or actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the RREGOP before being eligible for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under age 55. Otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the RREGOP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE RREGOP (cont'd)

f) Indexation of benefits

RREGOP pension benefits are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982.

2. ACCOUNTING POLICIES

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

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, net assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 7.06% of the surplus eligible earnings over 35% of maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). The contribution rate was established based on the actuarial valuation conducted using data as at December 31, 2002 and reflects the changes made to the RREGOP since its publication in October 2004. This rate corresponds to 4.79% of the pensionable earnings.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

The Act respecting the Government and Public Employees Retirement Plan does not require the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are disclosed in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those for contributors and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

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

	2006				2005
	Employee contributions fund	Employer contributions fund	SPP fund **	Total	Total
Participation deposits in individual funds – at fair value (cost 2006: \$45 959 963; 2005: \$41 767 755) *	43 419 784		481 499	43 901 283	38 608 967
Demand deposits in the General Fund (advances)	(51 035)	65 148	47 612	61 725	12 890
Revenue receivable from individual funds	258 430		2 866	261 296	307 075
	<u>43 627 179</u>	<u>65 148</u>	<u>531 977</u>	<u>44 224 304</u>	<u>38 928 932</u>

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

December 31, 2006

(in thousands of dollars)

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

	2006			2005
	Employee contributions fund	Employer contributions fund	SPP fund **	Total
* Cost of units				35 532 076
Cumulated gains realized but not yet distributed by individual portfolios				10 427 887
				<u>45 959 963</u>
				<u>32 922 980</u>
				<u>8 844 775</u>
				<u>41 767 755</u>

** Supplemental pension plans

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities equals their book value, given that they mature in the short term.

6. ASSETS AVAILABLE FOR BENEFITS

	2006			2005
	Employee contributions	Employer contributions	Total	Total
Regular service	43 278 933	277 160	43 556 093	38 393 449
Transferred service		375	375	702
Pension credits acquired by buy-outs	274 128		274 128	252 500
Supplemental pension plans *	484 304		484 304	445 099
Pension plan for certain employees of the Commission scolaire de la Capitale *	47 629		47 629	
	<u>44 084 994</u>	<u>277 535</u>	<u>44 362 529</u>	<u>39 091 750</u>

* Transfers of the assets of these plans include the employees and employers share. The amounts needed to pay benefits are taken from the funds into which they were deposited when transferred, regardless of each party's share.

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. Under the Act respecting the Government and Public Employees Retirement Plan, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (cont'd)**Liability recorded in the Government's financial statements (cont'd)**

The pension costs for the RREGOP correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2006	2005
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	23 891 957	22 064 249
Adjustment *	158 000	
	<u>24 049 957</u>	<u>22 064 249</u>
Increase		
Pension costs		
Current service	1 036 976	1 069 486
Past service	194 799	111 147
Interest	1 801 909	1 577 182
	<u>3 033 684</u>	<u>2 757 815</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	921 272	803 209
Inter-plan transfers for past service	98 615	126 898
	<u>1 019 887</u>	<u>930 107</u>
Net increase for the year	<u>2 013 797</u>	<u>1 827 708</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>26 063 754</u>	<u>23 891 957</u>
Estimated liability recorded as at December 31	<u>27 735 515</u>	<u>25 484 980</u>
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>2 288 385</u>	<u>2 288 676</u>
Estimated liability recorded as at December 31	<u>2 278 235</u>	<u>2 279 431</u>

* A new actuarial valuation for Government accounting of the RREGOP was needed in 2004-2005 to re-evaluate actuarial obligations as accumulated plan benefits and the liability reported. However, it was not available when the Government's financial statements for the year ending March 31, 2005 were published. The necessary work was finalized during the fiscal year ending March 31, 2006. The results of this new actuarial valuation involve an increase in the liability posted to pension plans in the amount of \$158 million at April 1, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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 (cont'd)

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part of or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$57 193 billion as at March 31, 2006). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 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 regarding financing regular service. In this valuation, the actuaries take legislative provisions and collective agreements into account using the valuation method the parties agree to and determining the employee and employer contribution rates and Government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the RREGOP. The fair value of this fund was estimated at \$45 041 billion as at December 31, 2006.

In its consolidated financial statements for the year ending March 31, 2006, the Government does not recognize having commitments to the RREGOP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the RREGOP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions, and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the RREGOP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the RREGOP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since there is evidence that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute, before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

For the year, the Government's contribution for regular service corresponds to 4.53% 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, 2002 and published in October 2004 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.

The interest credited to this fund and the unrealized loss are calculated using 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.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (cont'd)

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

	2006	2005
Balance, beginning of year	39 889 100	35 379 207
Increase		
Gouvernement du Québec contributions	740 394	730 178
Interest	4 446 866	5 110 642
Unrealized (losses) gains	1 100 960	(293 628)
	46 177 320	40 926 399
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	1 018 302	910 770
Inter-plan transfers for past service	118 406	126 529
Balance, end of year	45 040 612	39 889 100

The equivalent cost value was \$47 528 498 000 at December 31, 2006 (\$43 477 946 000 at December 31, 2005).

8. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the RREGOP administrator. These obligations represent the value of benefits attributable to the years of service accumulated at the date of valuation.

The assumptions used by CARRA are those deemed probable by its actuaries in the actuarial valuation prepared using data as at December 31, 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 \$3 075 691 000 at December 31, 2003 for pension credits acquired by buy-out, and for years of service transferred from the TPP, CSSP and at \$606 135 at December 31, 2004 for 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 \$64 230 494 000 at December 31, 2006.

	2006			2005
	Employees	Employers	Total	Total
Regular service	30 144 442	30 768 009	60 912 451	57 998 471
Transferred service		2 570 105	2 570 105	2 606 926
Pension credits acquired by buy-out	184 876	258 827	443 703	439 955
Supplemental pension plans *	304 235		304 235	304 920
	30 633 553	33 596 941	64 230 494	61 350 272

The obligations related to benefits for regular service include \$967 117 000 (\$962 843 000 at December 31, 2005) for additional benefits.

* The date the financial statements were prepared, CARRA actuaries did not have the data required for an actuarial valuation of the pension obligations of plans of certain Commission scolaire de la Capitale employees. The obligations do not include this pension plan.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Change in accrued pension obligations**

	2006	2005
Actuarial present value of accrued pension benefits		
- beginning of year	61 350 272	57 265 009
Increase		
Actuarial loss		68 230
Change in actuarial assumptions		105 266
Revaluation of pension credits acquired through buy-back	7 527	
Interest	3 996 122	3 752 907
Benefits accrued	2 330 348	2 303 353
	6 333 997	6 229 756
Decrease		
Corrections to participant data		15 720
Actuarial gain	1 084 955	
Benefits paid	2 202 077	1 934 080
Inter-plan transfers	166 743	194 693
	3 453 775	2 144 493
Net increase for the year	2 880 222	4 085 263
Actuarial present value of accrued pension benefits		
- end of year	64 230 494	61 350 272

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.55 %
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 Canadian generally accepted accounting principles for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the RREGOP, the method used by interested parties to determine employee contribution rates is the overall attained-age actuarial cost method, net assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created; there can be no asset deficit or surplus.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service and additional benefits was \$26 587 775 000 as at December 31, 2002 and \$43 278 933 000 as at December 31, 2006, which corresponds to the market value of the employee fund at these dates.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

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

	2006				2005
	Employee contributions fund	Employer contributions fund	SPP fund *	Total	Total
Net investment income from individual funds	1 603 252		18 073	1 621 325	1 460 060
Interest on demand deposits in the General Fund	221	244	49	514	279
	<u>1 603 473</u>	<u>244</u>	<u>18 122</u>	<u>1 621 839</u>	<u>1 460 339</u>
Change in fair value					
Gains from the sale of investments	1 111 462		12 530	1 123 992	847 036
Gains realized in the individual portfolios	1 565 400		17 692	1 583 092	2 625 298
Unrealized (losses) gains	<u>1 086 567</u>		<u>13 561</u>	<u>1 100 128</u>	<u>(281 578)</u>
	<u>3 763 429</u>		<u>43 783</u>	<u>3 807 212</u>	<u>3 190 756</u>

* Supplemental pension plans.

10. COMMITMENTS

CARRA undertook comprehensive, overall modernization of its business processes and systems. This involved a global investment plan (GIP) that proposes a new business vision and new corporate structure. In this context, the Gouvernement du Québec authorized CARRA to contract short-term or credit margin borrowings until December 31, 2009 to finance the GIP. The amounts of these borrowings is limited to \$87 136 735. According to agreements between the parties, the RREGOP and PPMP committed to assuming 93% and 7% respectively of the GIP's computer system development costs. The expenses related to these developments is expected to be posted to the RREGOP and PPMP at the rate at which CARRA amortizes them as of the date they become operational.

At December 31, 2006, CARRA had borrowed \$17 500 000.

11. SUBSEQUENT EVENTS**Settlement of pay equity file**

In 2006, the Government concluded agreements with employee associations, which represent almost all salaried employees of the public service and the health, social services and education networks. The application of these agreements, which over the period November 21, 2001 – November 21, 2007 concern salary adjustments, will affect RREGOP contribution revenues and benefits expenses. The payment of salary adjustments is foreseen for spring 2007. However, on the date the financial statements were prepared, CARRA lacked sufficient information to be able to reasonably estimate the contributions and benefits resulting from settlement of the pay equity file.

Transfer of the pension plan for non-teaching personnel of the Commission des écoles catholiques de Montréal

In keeping with the Act respecting the Government and Public Employees Retirement Plan, participants of the pension plan for non-teaching personnel of the Commission des écoles catholiques de Montréal (CECM) voiced their desire to participate in the RREGOP. As a result, at January 30, 2007, the Gouvernement du Québec approved, by Order-in-Council 49-2007, the conditions and terms under which, beginning February 1, 2007, CARRA assumes pension payments to participants and pension plan recipients for CECFM non-teaching personnel. Since the plan ends on January 30, 2007, plan assets evaluated at \$315 875 676 were transferred to the RREGOP and deposited with the CDP in February 2007.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding regular service and additional benefits resulting from the revaluation of certain years of service acquired at December 31, 2002. This estimate uses contributors' profiles as at December 31, 2002 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$45 637 793 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2002 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of Actuarial Services, Development
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

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired by buy-out for past service using contributors' profiles as at December 31, 2003 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$430 078 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2003 PERFORMED FOR PENSION CREDITS ACQUIRED BY BUY-OUT OF PAST SERVICE AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, September 16, 2005

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan using contributors' profiles as at December 31, 2003 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$2 645 613 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2003 PERFORMED FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 16, 2006

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

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits awarded certain retired social affairs sector employees using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$606 135.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2004 PERFORMED FOR PENSION CREDITS AWARDED CERTAIN RETIRED SOCIAL AFFAIRS SECTOR EMPLOYEES AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 9, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the supplemental pension plans to the Plan using contributors' profiles as at December 31, 2001 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$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 prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 4, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Government and Public Employees Retirement Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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)

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2006

(in thousands of dollars)

	2006	2005
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	7 264 313	6 414 835
Employer contributions fund	110 835	43
	<u>7 375 148</u>	<u>6 414 878</u>
Accounts receivable		
Employee contributions	15 014	14 907
Employer contributions	1 450	1 031
Amounts receivable from the Gouvernement du Québec	53 369	53 667
Amounts receivable – transfers	1 096	1 451
	<u>70 929</u>	<u>71 056</u>
Cash on hand	1 012	940
	<u>7 447 089</u>	<u>6 486 874</u>
LIABILITIES		
Contribution refunds and pensions payable	1 763	2 987
Surplus employee contributions to be refunded	1 863	1 847
Administrative expenses payable	984	861
	<u>4 610</u>	<u>5 695</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u>7 442 479</u>	<u>6 481 179</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (Note 7)**COMMITMENTS (Note 11)**

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2006

(in thousands of dollars)

	2006	2005
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	131 846	124 015
Transfer of contributions cumulated by those targeted from the Government and Public Employees Retirement Plan, including interest	111 684	118 439
Contributions of independent employers	21 556	17 847
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	277 404	245 244
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	612 086	544 991
Interest income	372	307
	<u>1 154 948</u>	<u>1 050 843</u>
Amounts received or receivable from the Gouvernement du Québec		
Regular service	245 348	221 796
Transferred service	92 235	84 853
Regular service – Senior officials	32 046	27 307
	<u>369 629</u>	<u>333 956</u>
	<u>1 524 577</u>	<u>1 384 799</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions (Note 10)	518 201	453 508
Contribution refunds, including interest	2 641	3 654
Transfers, including interest	21 171	18 069
Administrative expenses	3 217	3 662
	<u>545 230</u>	<u>478 893</u>
Amounts deposited in the Consolidated Revenue Fund (Note 3)	18 047	16 609
	<u>563 277</u>	<u>495 502</u>
NET INCREASE FOR THE YEAR	961 300	889 297
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>6 481 179</u>	<u>5 591 882</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u>7 442 479</u>	<u>6 481 179</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS**Pension Plan of Management Personnel**

The following description of the Pension Plan of Management Personnel (PPMP) is given for information purposes only. For more complete information on the plan, see the Act respecting the Pension Plan of Management Personnel (R.S.Q., c. 12.1).

a) General information

The PPMP is 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 ununionizable public and parapublic sector employees appointed or hired before January 1, 2001 who contributed to the Government and Public Employees Retirement Plan (RREGOP) at December 31, 2000.

The pensions and benefits described below may differ for certain classes of employees determined by the Government, including senior officials.

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$172 million and the remainder is assumed by the Government.

For senior officials, benefits are funded by participants and self-employed employers in accordance with the contribution rates set by law and the Government, which assumes the balance of obligations related to benefits.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to PPMP administration are assumed by the plan and divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 35 years' pensionable service or age 55 if their age and years of service total 88.

Contributors are entitled to pension benefits without an actuarial reduction at age 55.

The pension is obtained by multiplying the average pensionable earnings for the three best-paid years by 2% per year of service. It can be added to pension credits granted following redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluation of certain years of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner age 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. If there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, if applicable.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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/are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is/are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the PPMP before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under age 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the PPMP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

f) Indexation of benefits

PPMP pension benefits are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplementary Pension Plan for Senior Officials

In keeping with section 208 of the Act respecting the Pension Plan of Management Personnel, the Government established the Supplementary Pension Plan for Senior Officials by Order-in-Council 461-92. This is a defined-benefit plan offered certain senior officials eligible for benefits under the Act respecting the Pension Plan of Management Personnel. The plan provides for additional 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

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

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 THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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, net assets.

In January 2007, the retirement committee adopted a benefit funding policy to be paid by PPMP participants. It will get to work on the next actuarial valuation which needs to be tabled in fall 2007.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 7.78% of the surplus eligible earnings over 35% of maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). This contribution rate is established based on the actuarial valuation carried out according using data as at December 31, 2002 and reflects the changes made to the PPMP since its publication in October 2004. This rate corresponds to 6.33% of the pensionable earnings.

For CSSP and TPP participants who chose to participate in the PPMP, the contribution rate is increased by 4% without exceeding the rates of their original plans. However, these participants pay the PPMP rate when it exceeds these maximum amounts. For 2006, this rate was 7.78% for CSSP management personnel and 8.08% for TPP management personnel.

The Act respecting the Pension Plan of Management Personnel does not require the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are disclosed in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those used for participants and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the 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 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 needed to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

Amounts deposited in the Consolidated Revenue Fund

Under Order-in-Council 987-99, employee contributions from senior officials and those of their employees are deposited into the Consolidated Revenue Fund. The amounts needed for the payment of benefits are also taken from the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2006			2005
	Employee contributions fund	Employer contributions fund	Total	Total
Participation deposits in individual funds – at fair value (cost 2006: \$7 438 731; 2005: \$6 721 274) *	7 327 649		7 327 649	6 370 966
Demand deposits in the General Fund (advances)	(108 894)	110 835	1 941	(6 409)
Revenues receivable from individual funds	45 558		45 558	50 321
	<u>7 264 313</u>	<u>110 835</u>	<u>7 375 148</u>	<u>6 414 878</u>
* Cost of units			5 918 244	5 381 293
Cumulated gains realized but not yet distributed by individual portfolios			<u>1 520 487</u>	<u>1 339 981</u>
			<u>7 438 731</u>	<u>6 721 274</u>

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities equals their book value, given that they mature in the short term.

6. NET ASSETS AVAILABLE FOR BENEFITS

	2006			2005
	Employee contributions	Employer contributions	Total	Total
Regular service	7 053 195	389 255	7 442 450	6 481 107
Transferred service		29	29	72
	<u>7 053 195</u>	<u>389 284</u>	<u>7 442 479</u>	<u>6 481 179</u>

The net assets available to pay benefits resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in the RREGOP financial statements, were, respectively, \$274 128 000 and \$484 304 000 as at December 31, 2006 (\$252 500 000 and \$445 099 000 as at December 31, 2005).

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. Under the Act respecting the Pension Plan of Management Personnel, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service and benefits payable to senior officials. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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 in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2006	2005
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	4 556 981	4 112 179
Adjustment *	34 000	
	<u>4 590 981</u>	<u>4 112 179</u>
Increase		
Contributions encashed	16 292	14 467
Pension costs		
Current service	185 381	196 412
Past service	36 573	21 046
Interest	342 575	297 935
Inter-plan transfers for past service	98 991	122 383
	<u>679 812</u>	<u>652 243</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	257 642	207 441
	<u>422 170</u>	<u>444 802</u>
Net increase		
	<u>5 013 151</u>	<u>4 556 981</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>5 013 151</u>	<u>4 556 981</u>
Estimated liability recorded as at December 31	<u>5 260 466</u>	<u>4 838 932</u>
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>1 109 077</u>	<u>1 101 900</u>
Estimated liability recorded as at December 31	<u>1 108 219</u>	<u>1 103 485</u>

* A new actuarial valuation for Government accounting of the PPMP was needed in 2004-2005 to re-evaluate actuarial obligations as accumulated plan benefits and the liability reported. However, it was not available when the Government's financial statements for the year ending March 31, 2005 were published. The necessary work was finalized during the fiscal year ending March 31, 2006. The results of this new actuarial valuation involve an increase in the liability posted to pension plans in the amount of \$34 million at April 1, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)

Change in the liability recorded in the Government's financial statements (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 (\$57 193 billion as at March 31, 2006). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$1 875 billion of which are slated for the PPMP.

Financing regular service

In keeping with the Act respecting the Pension Plan of Management Personnel, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and employment conditions into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the government contribution. Consequently, from the beginning of the PPMP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPMP. The fair value of this fund is estimated at \$7 073 billion as at December 31, 2006.

In its consolidated financial statements for the year ending March 31, 2006, 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 on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPMP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPMP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since the evidence shows that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute, before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Other management employee organizations became involved in this request, which was granted by the Superior Court in March 2007. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

For the year, the Government's contribution for regular service corresponds to 4.47% of pensionable earnings. The contribution was established based on the actuarial valuation conducted on the basis of data as at December 31, 2002 and reflects the changes made to the PPMP since its publication.

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

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)

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

	2006	2005
Balance, beginning of year	6 274 926	5 536 485
Increase		
Gouvernement du Québec contributions	72 289	69 736
Interest	630 130	793 727
Unrealized (losses) gains	233 111	(14 756)
Inter-plan transfers for past service	106 438	116 102
	7 316 894	6 501 294
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	244 051	226 368
Balance, end of year	7 072 843	6 274 926

The equivalent cost value was \$7 251 896 000 at December 31, 2006 (\$6 687 090 000 at December 31, 2005).

8. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined according to the projected benefit method prorated by service and the most probable assumptions in the opinion of the PPMP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation prepared using data as at December 31, 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 \$1 290 550 000 at December 31, 2003 for years of service transferred from the TPP, CSSP and at \$707 591 000 at December 31, 2004 for senior officials. They estimated the actuarial value of all of these benefits at \$13 377 884 000 at December 31, 2006.

	2006		2005
	Employee contributions	Employer contributions	Total
Management Personnel			
Regular service	5 680 975	5 630 455	11 311 430
Transferred service		1 282 976	1 282 976
	5 680 975	6 913 431	12 594 406
Senior officials		783 478	783 478
	5 680 975	7 696 909	13 377 884
			12 709 150

The obligations related to benefits for regular service include \$224 989 000 \$ (\$227 787 000 at December 31, 2005) for additional benefits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Change in accrued pension obligations**

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	12 709 150	11 790 181
Increase		
Actuarial loss		39 142
Change in actuarial assumptions	7 892	47 091
Changes made to the PPMP	4 523	
Interest	825 412	774 466
Benefits accrued	371 619	352 525
Inter-plan transfers	142 156	195 462
	1 351 602	1 408 686
Decrease		
Actuarial gain	140 972	
Corrections to participant data	856	14 002
Benefits paid	541 040	475 715
	682 868	489 717
Net increase for the year	668 734	918 969
Actuarial present value of accrued pension benefits - end of year	13 377 884	12 709 150

Pension obligations resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in RREGOP financial statements, are, respectively, \$443 703 000 and \$304 235 000 at December 31, 2006 (\$439 955 000 and \$304 920 000 at December 31, 2005).

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.55 %
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 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 Canadian generally accepted accounting principles 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, net assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created; there can be no asset deficit or surplus.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Employee obligations for capitalization purposes(cont'd)**

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 \$7 053 195 000 as at December 31, 2006, which corresponds to the market value of the employee fund at these dates.

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

	2006		2005
	Employee contributions fund	Employer contributions fund	Total
Net investment income from individual funds	277 102		277 102
Interest on demand deposits in the General Fund	214	88	302
	<u>277 316</u>	<u>88</u>	<u>277 404</u>
Change in fair value			
Gains from the sale of investments	192 354		192 354
Gains realized in the individual portfolios	180 506		180 506
Unrealized (losses) gains	239 226		239 226
	<u>612 086</u>		<u>612 086</u>
			<u>544 991</u>

10. BENEFITS TO CONTRIBUTORS

For fiscal 2006, \$1 983 083 (2005: \$1 620 814) 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.

11. COMMITMENTS

CARRA undertook comprehensive, overall modernization of its business processes and systems. This involved a global investment plan (GIP) that proposes a new business vision and new corporate structure. In this context, the Gouvernement du Québec authorized CARRA to contract short-term or credit margin borrowings until December 31, 2009 to finance the GIP. The amounts of these borrowings is limited to \$87 136 735. According to agreements between the parties, the RREGOP and PPMP committed to assuming 93% and 7% respectively of the GIP's computer system development costs. The expenses related to these developments is expected to be posted to the RREGOP and PPMP at the rate at which CARRA amortizes them as of the date they become operational.

At December 31, 2006, CARRA had borrowed \$17 500 000.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of Management Personnel regarding regular service and additional benefits resulting from the revaluation of years of service acquired at December 31, 2002. This estimate uses contributors' profiles as at December 31, 2002 to determine the value of the obligations resulting from the Plan to be posted in the financial statements. It reveals that, at that date, this value was \$8 636 846 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR MANAGEMENT PERSONNEL AT DECEMBER 31, 2002, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of actuarial Services, Development
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

CARRA actuaries performed an actuarial valuation of the Pension Plan of Management Personnel regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan using contributors' profiles as at December 31, 2003 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$1 290 550 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN OF MANAGEMENT PERSONNEL AT DECEMBER 31, 2003, PERFORMED FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 17, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan for Management Personnel regarding specific provisions offered senior officials using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$666 823 000. For the actuarial valuation, the Pension Plan for Senior Official designates these specific provisions.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2004, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FIICA, FSA
Actuary

Québec, February 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan for Management Personnel for supplemental pension plans for senior officials using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$40 768 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2004, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, February 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plans of Management Personnel as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006

(in thousands of dollars)

	2006		2005	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Teachers Pension Plan	3 301		7 375	
Pension Plan of Certain Teachers	<u>1 790</u>	5 091	<u>712</u>	8 087
Contributions of independent employers				
Teachers Pension Plan		17		133
Interest income				
Teachers Pension Plan		<u>7</u>		<u>24</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>5 115</u>		<u>8 244</u>
BENEFITS				
Benefits paid				
Pensions				
Teachers Pension Plans (Note 5)	1 229 013		1 208 222	
Pension Plan of Certain Teachers	<u>153 527</u>	1 382 540	<u>153 019</u>	1 361 241
Contribution refunds				
Teachers Pension Plans	826		1 159	
Pension Plan of Certain Teachers	<u>2</u>	828	<u>4</u>	1 163
Transfers, including interest				
Teachers Pension Plans	3 753		4 632	
Pension Plan of Certain Teachers	<u>473</u>	4 226	<u>230</u>	4 862
Administrative expenses				
Teachers Pension Plans	2 654		2 582	
Pension Plan of Certain Teachers	<u>261</u>	<u>2 915</u>	<u>346</u>	<u>2 928</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		1 390 509		1 370 194

PENSION OBLIGATIONS (Note 6)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 7)**SUBSEQUENT EVENT** (Note 8)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Teachers Pension Plans Pension Plan of Certain Teachers

The following description is given for information purposes only. For more complete information concerning these plans, please consult the following:

- Act respecting the Teachers Pension Plan (R.S.Q., c. R-11);
- Act respecting the Pension Plan of Certain Teachers (R.S.Q., c. R-9.1);
- Act respecting pension coverage for certain teachers (R.S.Q., c. P-32.1).

a) General information

These 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 belonged to a religious community.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 65 for men, or age 60 for women. They are also entitled to such benefits if they are age 62 and have 10 years' pensionable service, if they have 33 years' pensionable service under the Teachers Pension Plan (TPP) or 35 years' pensionable service under the Pension Plan of Certain Teachers (PPCT), or if they are age 55 years and have 32 years' pensionable service.

Contributors are entitled to an actuarially reduced pension if they have 22 years' pensionable service and are age 55 years for men, or age 50 for women. Women are also entitled to such a pension if they have 10 years' pensionable service and are age 58.

The pension is calculated by multiplying the average pensionable earnings for the 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 as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability pension

The TPP provides for payment of a disability pension to an employee who has been disabled. 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 for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006
(in thousands of dollars)

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/she would have been entitled to receive or received. In the absence of a spouse, the heirs are entitled to receive the difference with interest between the contributions and pensions paid.

In the case of the TPP, if a contributor dies before being eligible for an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

In the case of the PPCT, if a contributor dies before being eligible for an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

f) Severance benefits

According to the terms and conditions of the TPP, persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension or may request that the total contributions paid into the plan or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

According to the terms and conditions of the PPCT, persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service. If they have 10 or more years' pensionable service and are over age 45, they are entitled to a deferred indexed pension. In all other cases, contributors are entitled to choose between the refund of contributions, plus interest, or a deferred indexed pension.

Contributors are eligible for a deferred indexed pension at age 60 or 65, depending on the terms and conditions of each plan.

g) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982 and to service entitling the individual to a pension in addition to the PPCT.

Supplemental Pension Plan for Teachers

The Supplemental Pension Plan for Teachers (C.T. 195706 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the TPP.

It provides for the payment of a disability pension under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the TPP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation and evaluation of pension obligations on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006
(in thousands of dollars)

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 earnings that exceed the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of this same Act and 8.08% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

For the PPCT, the employee contribution is 7.06% of the surplus of pensionable earnings over 35% of the maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan.

Employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act respecting the Teachers Pension Plan and Act respecting the Pension Plan of Certain Teachers do not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. AMOUNTS RECEIVABLE / TRANSFERS - PENSION PLAN OF CERTAIN TEACHERS

Sections 53 and 54 of the Act respecting the Pension Plan of Certain Teachers, in force since June 1986, stipulate that all amounts paid into the Caisse de dépôt et placement du Québec under the Act respecting the Government and Public Employees Retirement Plan for individuals covered by this Act must be transferred to the Consolidated Revenue Fund. However, benefits paid or payable are deducted from these amounts.

As at December 31, 2006, \$1 692 000 (\$704 000 as at December 31, 2005) 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 2006, \$3 057 687 \$ (2005: \$3 192 662) was paid under the Supplemental Pension Plan for Teachers and is included under the item "Pensions".

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuations of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. Changes were made to certain assumption to reflect participants' profiles and specific plan provisions. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued TPP benefits at \$14 318 272 000 as at December 31, 2002 and those of the PPCT at \$1 707 115 000 as at December 31, 2003, and estimated these amounts at \$13 325 809 000 and \$1 573 788 000 as at December 31, 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2006	2005
Teachers Pension Plan		
Actuarial present value of accrued pension benefits – beginning of year	13 698 829	14 017 547
Increase		
Interest	850 665	872 428
Benefits accrued	10 234	22 867
	860 899	895 295
Decrease		
Benefits paid	1 233 592	1 214 013
Inter-plan transfers for past service	327	
	1 233 919	1 214 013
Net decrease for the year	373 020	318 718
Actuarial present value of accrued pension benefits – end of year	13 325 809	13 698 829
Pension Plan of Certain Teachers		
Actuarial present value of accrued pension benefits – beginning of year	1 623 724	1 592 135
Increase		
Actuarial loss		37 953
Change in actuarial assumptions		37 936
Interest	100 593	106 696
Benefits accrued	1 721	2 151
Inter-plan transfers for past service	1 752	106
	104 066	184 842
Decrease		
Benefits paid	154 002	153 253
Net increase (decrease) for the year	(49 936)	31 589
Actuarial present value of accrued pension benefits – end of year	1 573 788	1 623 724
	14 899 597	15 322 553

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)
Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates		Medium-term rates	
	TPP	PPCT	TPP	PPCT
Inflation	3,50 %	3,50 %	2,55 %	2,55 %
Rate of return net of inflation	4.50	4.50	4.50	4.50
Salary escalation rate net of inflation	1.00	1.00	0.55	0.67

Medium-term rates for the PPCT represent the medium-term rates for 2004 to 2013 and, for the TPP, 2003 to 2013, while long-term rates represent rates used as of 2014. The yield-based assumption is determined by presuming that if the pension plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of Government and Public Employees Retirement Plan (RREGOP) participants.

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plan correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the accumulated benefit method prorated by service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2006	2005
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	13 902 101	14 148 248
Adjustment *	62 000	
	<u>13 964 101</u>	<u>14 148 248</u>
Increase		
Contributions recovered	7 543	17 172
Pension costs		
Current service	17 611	31 872
Past service	96 066	60 628
Interest	1 015 653	986 953
Inter-plan transfers for past service	53	2 682
	<u>1 136 926</u>	<u>1 099 307</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>1 377 507</u>	<u>1 345 454</u>
Net increase for the year	<u>240 581</u>	<u>246 147</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>13 723 520</u>	<u>13 902 101</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS

PENSION PLAN OF CERTAIN TEACHERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**Change in the liability recorded in the Government's financial statements (cont'd)**

	2006	2005
Estimated liability recorded as at December 31	13 487 058	13 686 905

* A new actuarial valuation for Government accounting of the RREGOP was needed in 2004-2005 to re-evaluate actuarial obligations as accumulated plan benefits and the liability reported. However, it was not available when the Government's financial statements for the year ending March 31, 2005 were published. The necessary work was finalized during the fiscal year ending March 31, 2006. The results of this new actuarial valuation involve an increase in the liability posted to pension plans in the amount of \$62 million at April 1, 2005.

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part of or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$57 193 billion as at March 31, 2006). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 billion for the Pension Plan of Management Personnel.

8. SUBSEQUENT EVENT

In 2006, the Government concluded agreements with employee associations, which represent almost all salaried employees of the public service and the health, social services and education networks. The application of these agreements, which over the period November 21, 2001 – November 21, 2007 concern salary adjustments, will affect RREGOP contribution revenues and benefits expenses. The payment of salary adjustments is foreseen for spring 2007. However, on the date the financial statements were prepared, CARRA lacked sufficient information to be able to reasonably estimate the contributions and benefits resulting from settlement of the pay equity file.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Teachers Pension Plans using the contributors' profile as at December 31, 2002 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$14 318 272 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE TEACHERS PENSION PLANS AS AT DECEMBER 31, 2002 FORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, January 25, 2005

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN OF CERTAIN TEACHERS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of Certain Teachers using the contributors' profile as at December 31, 2003 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$1 707 115 000.

**ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE PENSION PLAN OF CERTAIN TEACHERS AS AT
DECEMBER 31, 2003 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS**

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 8, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Teachers Pension Plans and the Pension Plan of Certain Teachers for the year ended December 31, 2006. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of these plans for the year ended December 31, 2006 in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance,
Auditor General of Québec

Québec, March 23, 2007

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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	2 181	4 789
Contributions of independent employers	<u>820</u>	<u>1 087</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>3 001</u>	<u>5 876</u>
BENEFITS		
Benefits paid		
Pensions (Note 4)	465 831	457 709
Contribution refunds	326	314
Transfers, including interest	1 548	1 210
Administrative expenses	<u>1 266</u>	<u>1 039</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>468 971</u>	<u>460 272</u>

PENSION OBLIGATIONS (Note 5)

LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)

SUBSEQUENT EVENT (Note 7)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Civil Service Superannuation Plan

The following description of the Civil Service Superannuation Plan (CSSP) is given for information purposes only. For more complete information concerning this plan, please consult the Act respecting the Civil Service Superannuation Plan (R.S.Q., c. R-12).

a) General information

The CSSP is 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 an actuarial reduction:

- at age 65;
- at age 62 for men, or 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 obtained by multiplying the average pensionable earnings of the five best-paid years by 2% per year of service. The pension is reduced as of age 65 in order to coordinate with that of the Québec Pension Plan.

d) Disability pension

The CSSP provides for payment of a disability pension to an employee who has been disabled. 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 for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

f) Severance benefits

Persons who cease to contribute to the CSSP before being eligible for an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension at age 65 for men, or 60 for women, or may request that the total contributions paid into the CSSP or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)**g) Indexation of benefits**

CSSP pension benefits are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982.

Supplemental Pension Plan for Civil Servants

The Supplemental Pension Plan for Civil Servants (C.T. 195705 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the CSSP.

It provides for the payment of a disability pension, under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the CSSP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting and evaluation of pension obligations on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the CSSP, the employee and independent employer contributions for the fiscal year were 5.45% of the pensionable portion of the earnings that exceed the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 7.25% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the CSSP. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. BENEFITS TO CONTRIBUTORS

For fiscal 2006, \$178 371 (2005: \$185 027) was paid under the Supplemental Pension Plan for Civil Servants and is included under the item "Pension".

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2002 and tabled 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 \$5 073 257 000 as at December 31, 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	5 209 506	5 320 855
Increase		
Interest	323 660	331 464
Benefits accrued	7 475	16 420
Inter-plan transfers for past service	321	
	331 456	347 884
Decrease		
Benefits paid	467 705	459 233
Net decrease for the year	136 249	111 349
Actuarial present value of accrued pension benefits – end of year	5 073 257	5 209 506

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.55 %
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. The yield-related assumption is determined by presuming that, if the CSSP were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the RREGOP.

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the CSSP in the Consolidated Revenue Fund.

The pension costs for the CSSP correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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**

	2006	2005
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	4 870 186	4 951 599
Adjustment *	10 000	
	<u>4 880 186</u>	<u>4 951 599</u>
Increase		
Contributions recovered	4 412	4 820
Pension costs		
Current service	11 794	11 909
Past service	19 231	15 450
Interest	344 329	341 228
	<u>379 766</u>	<u>373 407</u>
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>463 286</u>	<u>454 820</u>
Net decrease for the year	<u>83 520</u>	<u>81 413</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>4 796 666</u>	<u>4 870 186</u>
Estimated liability recorded as at December 31	<u>4 711 529</u>	<u>4 800 755</u>

* A new actuarial valuation for Government accounting of the RREGOP was needed in 2004-2005 to re-evaluate actuarial obligations as accumulated plan benefits and the liability reported. However, it was not available when the Government's financial statements for the year ending March 31, 2005 were published. The necessary work was finalized during the fiscal year ending March 31, 2006. The results of this new actuarial valuation involve an increase in the liability posted to pension plans in the amount of \$10 million at April 1, 2005.

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 (\$57 193 billion as at March 31, 2006). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 billion for the Pension Plan of Management Personnel.

7. SUBSEQUENT EVENT

In 2006, the Government concluded agreements with employee associations, which represent almost all salaried employees of the public service and the health, social services and education networks. The application of these agreements, which over the period November 21, 2001 – November 21, 2007 concern salary adjustments, will affect RREGOP contribution revenues and benefits expenses. The payment of salary adjustments is foreseen for spring 2007. However, on the date the financial statements were prepared, CARRA lacked sufficient information to be able to reasonably estimate the contributions and benefits resulting from settlement of the pay equity file.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

ACTUARIAL VALUATION

The Commission's actuaries performed an actuarial valuation of the Civil Service Superannuation Plan using the contributors' profile as at December 31, 2002 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$5 450 635 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE CIVIL SERVICE SUPERANNUATION PLAN AS AT DECEMBER 31, 2002 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF THE OBLIGATIONS RESULTING FROM THE PLAN RECORDED IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
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, 2006. This financial statement is the responsibility CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of the plans for the year ended December 31, 2006 in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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 DEPUTY PUBLIC PROTECTORS

CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2006

(in thousands of dollars)

	2006		2005	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Pension plans offered to judges of the Québec Court and certain municipal courts		3 852		2 023
Municipalities' contributions, including contributions for previous service				
Pension plans offered to judges of the Québec Court and certain municipal courts	87		103	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	157	244	138	241
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>4 096</u>		<u>2 264</u>
BENEFITS				
Benefits paid				
Pensions				
Pension plans offered to judges of the Québec Court and certain municipal courts	15 859		15 554	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	4 190		3 443	
Pension Plan of the Public Protector and his/her Deputy Public Protectors	284	20 333	247	19 244
Administrative expenses				
Pension plans offered to judges of the Québec Court and certain municipal courts		32		30
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		<u>20 365</u>		<u>19 274</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 5)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act

The following description is given for information purposes only. For more complete information concerning these plans, please consult Parts V.1 to 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 (S.Q. 1971, c. 77), the Pension plan of certain judges appointed before May 30, 1978 also applies to commissioners of the Commission des valeurs mobilières du Québec who were in office in July 7, 1971.

b) Funding

Pension plan of the judges of the Court of Québec and certain municipal courts (PPJCQM) benefits are funded by participants and municipalities according to the contribution rate set by law. The Government assumes the balance of pension obligations.

For the other plans, benefits are entirely funded by the Government.

c) Retirement benefits

PPJCQM contributors are entitled to a retirement pension without an actuarial reduction at age 65 or when the sum of their age and years of service total 80. They are entitled to a reduced pension when they have accumulated 21.7 years of service. According to the provisions of the PPCJQM, the pension is obtained by multiplying the average pensionable earnings for the three best-paid years by 1.5% per year of service. Contributors are entitled to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 3% per year of service over the retirement pension calculated under the basic plan. The sum of PPJCQM benefits and supplemental pension plan benefits cannot exceed 65% of average pensionable earnings or be lower than 55% thereof if their age and years of service total 80.

Contributors to the Pension plan of certain judges appointed before January 1, 2001 are entitled to a retirement pension without the actuarial reduction at age 65 or to a reduced pension when they have 25 years of service. The retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 2.8% per year of service for years of service prior to December 31, 1991 and by 1.5% per year of service thereafter. Contributors are entitled to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 2.8% per year of service over the retirement pension calculated under the basic plan.

PPJCQM and PPCJAJ contributors are entitled to a retirement pension with an actuarial reduction at age 55 if they have at least 5 years of service.

According to the provisions of the Pension plan of certain judges of the Court of Québec appointed before May 30, 1978, the pension constitutes a set amount.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act (cont'd)

d) Disability benefits

These pension plans may provide for payment of a disability benefit to an employee who has been totally and permanently disabled. This benefit is calculated according to the same terms and conditions as a regular pension.

e) Death benefits

If a PPJCQM or PPCBJJ contributor or pensioner dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% or 66 2/3% if the contributor had chosen a reduced pension. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the surviving spouse or, failing that, to the heirs.

If a contributor dies while receiving a Pension plan of the judges of the Court of Québec and certain municipal courts pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension that the person received

The same conditions apply to supplemental benefits.

f) Severance benefits

Persons who cease to contribute to the PPJCQM or PPCBJJ before being eligible for an immediate pension are entitled to a deferred indexed pension at age 65 if they have more than two years' pensionable service; otherwise, they are entitled to the refund of contributions, plus interest. The same conditions apply to supplemental benefits.

g) Indexation of benefits

PPJCQM and PPCBJJ pension benefits and supplemental benefits are fully indexed to the cost of living increase for the portion of the pension corresponding to vested service prior to July 1, 1990, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1990. PPCJBM pension benefits are fully indexed if contributors opt for such indexation by investing the required amounts.

Pension plan of the Public Protector and his/her Deputy Public Protectors

The following description is given for information purposes only. For more complete information concerning these plans, please consult the Public Protector Act (R.S.Q., c. P-32) regarding the pension plan of the Public Protector and his/her Deputy Public Protectors.

a) General information

This pension plan is administered by CARRA. It is a defined-benefit pension plan

b) Funding

Pension benefits under this plan are funded entirely by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the Public Protector and his/her assistant (cont'd)

c) Retirement benefits

Benefits under the pension plan of the Public Protector and his/her assistant are equal to 25% of what the contributor was earning at retirement per period of 5 years' pensionable service, without exceeding 75%. In the event of death, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. The plan also provides for payment of a disability pension to an employee who has been disabled. Pension benefits are not indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting and evaluation of pension obligations on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the fiscal year, the employee contribution to the PPJCQM equals 7% of pensionable earnings. The PPCBJB has been non-contributory for participants since January 1, 1990. The municipalities paid PPJCQM contributions corresponding to 29.63% of the payroll of the judges in question minus the judges' contributions (10.81% for the basic plan and 18.82% for supplementary benefits). They pay PPCJAJ contributions corresponding to 21.96% of the payroll of the judges in question (8.60% for the basic plan and 13.36% for supplementary benefits).

The Pension plan of the Public Protectors and his/her Deputy Public Protectors is non-contributory.

Employee and municipal contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions 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 prepared using data as at December 31, 2002 and tabled with the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$318 810 000 as at December 31, 2004 for the pension plans of the judges of the Québec Court and certain municipal courts and at \$3 203 000 as at December 31, 2006 for the Pension Plan of the Public Protector and his/her Deputy Public Protectors. For all of these plans, the actuarial value of accrued benefits is estimated at \$351 649 000 as at December 31, 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)
Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	333 415	318 103
Increase		
Actuarial loss	1 444	14
Change in actuarial assumptions	1 786	6
Interest	21 591	22 768
Inter-plan transfers for past service	1 544	
Benefits accrued	13 126	11 768
	39 491	34 556
Decrease		
Corrections to participant data	924	
Benefits paid	20 333	19 244
	21 257	19 244
Net increase for the year	18 234	15 312
Actuarial present value of accrued pension benefits – end of year	351 649	333 415

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.60 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.40

Medium-term rates represent the average rates for the period 2005 to 2013, while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if the plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the 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 DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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>2006</u>	<u>2005</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>316 570</u>	<u>303 748</u>
Increase		
Contributions recovered	2 292	2 361
Pension costs		
Current service	9 376	9 332
Past service	(325)	(325)
Interest	<u>21 034</u>	<u>20 171</u>
	32 377	31 539
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>19 192</u>	<u>18 717</u>
Net increase	<u>13 185</u>	<u>12 822</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>329 755</u>	<u>316 570</u>
Estimated liability recorded as at December 31	<u><u>340 207</u></u>	<u><u>326 553</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, 2006: \$57 193 billion). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 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**

CARRA actuaries performed an actuarial valuation of the Pension plans of the judges of the Québec Court and certain municipal courts established under the Courts of Justice Act (R.S.Q., c. T-16) using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$221 211 000. For the actuarial valuation, the Pension plan of judges of the Québec court and certain municipal courts designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS AS AT DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 13, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Supplemental pension plans for the judges of the Québec Court and certain municipal courts established under section 122 of the Courts of Justice Act using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$97 599 000. For the actuarial valuation, the Pension plan of judges of the Québec court and certain municipal courts designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS AS AT DECEMBER 31, 2004, PEERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 13, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Public Protector and his/her Deputy Public Protectors using contributors' profiles as at December 31, 2006 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$3 203 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS AS AT DECEMBER 31, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 26, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS
PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans mentioned in Note 1 for the year ended December 31, 2006. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	24 102	21 717
Contributions of independent employers	100	60
Reimbursement of employer contribution overpayments		(214)
Transfers, including interest (Note 4)	16 254	21 545
Interest income	<u>57</u>	<u>53</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>40 513</u>	<u>43 161</u>
BENEFITS		
Benefits paid		
Pensions	161 780	151 208
Special pension	47	25
Contribution refunds	290	421
Transfers, including interest	1 924	2 928
Administrative expenses	<u>394</u>	<u>361</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>164 435</u>	<u>154 943</u>

PENSION OBLIGATIONS (Note 5)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)**

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(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 for information purposes only. For more complete information concerning this plan, please consult the June 2006 agreement between the Gouvernement du Québec and the Association des policières et policiers provinciaux du Québec.

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

Prior to January 1, 2007, pension benefits under these plans are funded by contributors and independent employers and by the Government, which assumes the remaining pension obligations and SPMSQ administrative expenses.

As of January 1, 2007, in accordance with the agreement reached in June 2006, the benefits resulting from years of service prior to December 31, 2006 are funded by contributors and the Government-and-independent employers, in respective proportions of 1/3 and 2/3. SPMSQ administrative expenses are funded in the same proportions.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 25 years' pensionable service or if their age and years of pensionable service total 75.

They are entitled to an actuarially reduced pension if they have 20 years' pensionable service.

Contributors must retire at age 65.

Contributors contribute once they have acquired 38 years of service credited towards the SPMSQ.

The pension is equal to the sum of the following:

- for past service credited prior to January 1, 1992, the amount obtained by multiplying the average pensionable earnings for the four best-paid years by 2.3% per year of service; and
- for service credited after December 31, 1991, the amount obtained by multiplying the average pensionable earnings for the three best-paid years by 2% per year of service, to which is added, until age 65, an additional amount equal to 0.3% per year of service.

The pension for past service cumulated prior to January 1, 1992, is reduced beginning at age 65 to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a person dies while off duty and had contributed to the SPMSQ for at least 10 years, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, excluding the additional amount. If the person did not have 10 years of service, the contributions are reimbursed with interest to the surviving spouse or, if there is no spouse, to the heirs.

Each dependent child is eligible for a pension equal to 10% of this pension, 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.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE SPMSQ AND THE SPECIAL PENSION (cont'd)

Superannuation plan for the members of the Sûreté du Québec (SPMSQ) (cont'd)

d) Death benefits (cont'd)

If a person dies while in office, benefits are payable when payment of the special pension stops.

e) Severance benefits

Persons who cease to contribute to the SPMSQ before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' service.

Otherwise, contributors may choose between the partial or complete refund of contributions, plus interest, and a deferred indexed pension, depending on their age and years of service when they cease to contribute to the SPMSQ.

The deferred pension plan is payable without an actuarial reduction once the person is 60 or over or with an actuarial reduction the date the person attains 32 years of service, whichever comes first.

f) Indexation of benefits

Pensioners who became members of the Sûreté du Québec prior to April 1, 1987, receive pensions which are fully indexed to the cost of living increase for pensionable service credited prior to January 1, 1992, and up to 20 years' pensionable service after that date. In all other cases, pensions are partially indexed to the cost of living increase.

Special pension

In keeping with an agreement between the Gouvernement du Québec and the Association des policières et 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

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting and evaluation of pension obligations on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

The employee contributions for the fiscal year were 6.2% of the pensionable portion of the salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of this same Act and 8% of the remaining pensionable earnings.

Prior to January 1, 2007, 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.

As of January 1, 2007, employee and employer contributions are deposited respectively in the employee contribution fund and employer contribution fund held by the Caisse de dépôt et placement du Québec.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

On the basis of the actuarial valuations required by the Minister of Finance, then latter determines the amounts that might, from year to year but no later than every three years, be capitalized for the periods prescribed to reflect the Government commitments towards the SPMSQ for benefits resulting from years of service prior to December 31, 2006.

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 policières et 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, 2006, \$2 820 000 (\$932 000 as at December 31, 2005) 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.

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined according to the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan (RREGOP) as at December 31, 2002 and tabled before the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$2 927 437 000 as at December 31, 2003 and estimated it at \$3 269 161 000 as at December 31, 2006.

Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	3 144 912	2 980 294
Increase		
Change in actuarial assumption		57 167
Interest	201 896	208 732
Benefits accrued	86 347	63 158
	288 243	329 057
Decrease		
Actuarial gain		5 497
Corrections to participant data		4 385
Benefits paid	163 994	154 557
	163 994	164 439
Net increase for the year	124 249	164 618
Actuarial present value of accrued pension benefits – end of year	3 269 161	3 144 912

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

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

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.55 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.67

Medium-term rates represent the average rates for the period 2004 to 2013 while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if the SPMSQ were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan before January 1, 2007, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the 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 in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2006	2005
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	2 890 550	2 757 436
Increase		
Contributions recovered, including transfers	43 933	50 375
Pension costs		
Current service	37 960	40 605
Past service	(377)	1 623
Interest	198 739	188 922
	280 255	281 525
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	156 257	148 411
Net increase for the year	123 998	133 114
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	3 014 548	2 890 550
Estimated liability recorded as at December 31	3 097 767	2 985 253

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(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 (cont'd)**

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2006: \$57 193 billion). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 billion for the Pension Plan of Management Personnel.

7. CONTINGENCIES

A contributor filed a grievance regarding the average pensionable earnings used by CARRA to calculate the pension benefit amount. CARRA is unable to determine the chances of the contributor's winning the case and, if so, the resulting financial impact.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Superannuation Plan for the Members of the Sûreté du Québec using the contributors' profile as at December 31, 2003 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$2 927 437 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AT DECEMBER 31, 2003 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, December 16, 2005

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

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 the special pension for the year ended December 31, 2006. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan as for the year ended December 31, 2006, in accordance with the Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	4 053	3 920
Transfers, including interest	<u>1 278</u>	<u>67</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>5 331</u>	<u>3 987</u>
BENEFITS		
Benefits paid		
Pensions	30 378	28 747
Contribution refunds and transfers, including interest	1 104	1 208
Administrative expenses	<u>334</u>	<u>419</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND AND ADMINISTRATIVE EXPENSES	<u>31 816</u>	<u>30 374</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (Note 4)
PENSION OBLIGATIONS (Note 5)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PPPOCS

The description of the Pension Plan for Peace Officers in Correctional Services (PPPOCS) is given for information purposes only. For more complete information concerning this plan, 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, which are funded entirely by contributors.

PPPOCS administrative expenses are assumed by the Government.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 32 years' pensionable service, or at age 50 if they have 30 years' pensionable service.

They are entitled to an actuarially reduced pension if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable earnings for the 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 for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse 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 for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than two years' pensionable service. Otherwise, they are entitled to a deferred indexed pension payable at age 65.

f) Indexation of benefits

PPPOCS pension benefits are partially indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting and evaluation of the pension obligations on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

In keeping with section 126 of the Act respecting the Pension Plan of Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation of the PPPOCS every three years. The goal of this valuation is to determine the employee contribution rate based on the benefits to be paid out and the value of the fund they would have set up had they capitalized their share. This valuation is based on assumptions established by CARRA actuaries and on the attained-age actuarial cost method, net assets.

The employee contribution for the fiscal year is 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 disclosed in Note 4. They are calculated as the fund the parties would have created, had their contributions, established according to the above-mentioned actuarial valuation, been deposited in a pension fund.

The amounts required to pay all benefits are taken from the Consolidated Revenue Fund.

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this shared-cost plan and because the employee contributions are deposited in the Consolidated Revenue Fund, it records, as a liability in the financial statements, the following amounts:

- the value of the fund that the contributors would have set up had their contributions been deposited in a pension fund that generates the same rates of return as the Government and Public Employees Retirement Plan (RREGOP) entrusted to the Caisse de dépôt et placement du Québec and determine according to cost value, and
- an amount established based on the value of benefits for which it is responsible, i.e. 46% of total benefits, in keeping with Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

PPPOCS pension costs correspond to the amount of the cost of accrued benefits, changes made to the plan during the year and amortization of adjustments related to estimates resulting from actuarial gains or losses.

The pension cost is evaluated in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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

	2006	2005
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	665 591	628 054
Increase		
Contributions recovered	3 725	8 072
Pension costs		
Current service	8 874	8 924
Past service	481	481
Interest	72 785	47 872
Inter-plan transfers for past service	2 148	2 148
	85 865	67 497
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	30 201	29 960
Inter-plan transfers for past service	429	429
	30 630	29 960
Net increase for the year	55 235	37 537
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	720 826	665 591
Estimated liability recorded as at December 31	755 513	706 631

The Financial Administration Act (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part of or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2006: \$57 193 billion). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 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 conduct an actuarial valuation every three years regarding financing the PPPOCS. In this valuation, the actuaries take legislative provisions and collective agreements into account using the valuation method the parties agree to and determining the employee and employer contribution rates. Consequently, from the beginning of the PPPOCS, CARRA has presented the Government's commitments to financing this plan as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee contribution funds of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec and determined in keeping with the cost exposure, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPPOCS. The fair value of this fund was estimated at \$921 092 000 as at December 31, 2006.

In its consolidated financial statements for the year ended as at March 31, 2006, the Government does not recognize having commitments to the PPPOCS on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPPOCS, the Government's commitment to the plan includes 46% of total benefits determined using

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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, had they capitalized their share, and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements since the fiscal year ended March 31, 1998. However, these notes contain information on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPPOCS. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPOCS does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since there is evidence that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

Change in the fund the parties would have created

	2006			2005
	Employee portion	Government portion	Total	Total
Balance, beginning of year	471 480	388 410	859 890	779 253
Increase				
Employee contributions and other amounts cashed	1 351	154	1 505	5 579
Additional employee contributions	2 917		2 917	2 773
Gouvernement du Québec contributions				
Current service		1 532	1 532	1 141
Interest	47 829	39 308	87 137	101 721
Inter-plan transfers for past service	177	151	328	
	523 754	429 555	953 309	890 467
Decrease				
Payment of benefits to contributors	17 575	14 308	31 883	29 711
Inter-plan transfers for past service				447
Administrative expenses		334	334	419
Balance, end of year	506 179	414 913	921 092	859 890

The contributors' portion includes \$19 148 000 at December 31, 2006 (\$15 516 000 at December 31, 2005) for funding additional benefits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the PPPOCS administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the RREGOP prepared using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. Changes were made to certain assumptions to take participant profiles and specific PPPOCS provisions into account. The short-term economic assumptions reflect the data known the date the valuation is tabled.

CARRA actuaries established the actuarial valuation of accrued benefits at \$554 303 000 as at December 31, 2004 for the PPOCS and \$13 500 000 as at December 31, 2005 for supplemental benefits. They estimated the actuarial value of all of these benefits at \$622 592 000 as at December 31, 2006.

Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits		
- beginning of year	588 940	561 834
Increase		
Change in actuarial assumptions	8 852	
Interest	38 215	40 288
Benefits accrued	20 421	17 230
Inter-plan transfers	1 982	
	69 470	57 518
Decrease		
Actuarial gain	3 771	
Corrections to participant data	565	
Benefits paid	31 482	29 537
Inter-plan transfers		875
	35 818	30 412
Net increase for the year	33 652	27 106
Actuarial present value of accrued pension benefits		
- end of year	622 592	588 940

The changes made to the PPPOCS include an amount of \$13 365 000 as at December 31, 2006 (\$12 014 000 as at December 31, 2005) for supplemental benefits.

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.60 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.00

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

Significant economic assumptions (cont'd)

Medium-term rates represent the average rates for the period 2005 to 2013, while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if the PPPOCS were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

Obligations for capitalization purposes

Employee contributions paid into the Consolidated Revenue Fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according Canadian generally accepted accounting principles for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the PPPOCS, the method used by interest parties to determine employee contribution rates is the overall attained-age actuarial cost method, net assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created; there can be no asset deficit or surplus.

For capitalization purposes, the value of actuarial obligations was \$921 092 000 at December 31, 2006, which corresponds to the fund the parties would have created.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services using the contributors' profile as at December 31, 2004 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$554 303 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, January 31, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services for supplemental benefits using the contributors' profile as at December 31, 2005 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$13 500 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2005 PERFORMED FOR THE SUPPLEMENTAL BENEFITS FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have performed this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, February 15, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Pension Plan of Peace Officers in Correctional Services for the year ended December 31, 2006. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan for the year ended December 31, 2006, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	<u>175 723</u>	<u>155 262</u>
Accounts receivables		
Employee contributions	67	70
Amounts receivable for past service	<u>155</u>	<u>138</u>
	<u>222</u>	<u>208</u>
	175 945	155 470
LIABILITIES		
Transfers and administrative expenses payable	<u>10</u>	<u>41</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 7)	<u><u>175 935</u></u>	<u><u>155 429</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPFEQ (Note 6)
SUBSEQUENT EVENT (Note 9)

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

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, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	942	900
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	6 377	5 649
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	<u>15 739</u>	<u>13 648</u>
	23 058	20 197
Amounts received from the Gouvernement du Québec to pay administrative expenses	<u>32</u>	<u>29</u>
	<u>23 090</u>	<u>20 226</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	2 552	2 403
Contribution refunds and transfers, including interest		188
Administrative expenses	<u>32</u>	<u>29</u>
	<u>2 584</u>	<u>2 620</u>
NET INCREASE FOR THE YEAR	20 506	17 606
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>155 429</u>	<u>137 823</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u>175 935</u>	<u>155 429</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(in thousands of dollars)

1. DESCRIPTION OF THE PPFEQ

The following description of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ) is given for information purposes only. For more complete information concerning this plan, 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 under Order-in-Council 430-93 of March 31, 1993, came into force on January 1, 1992.

b) Funding

Benefits are funded by contributors in keeping with the contribution rate established by Order-in-Council 430-93, the sums transferred from the federal government and the Government du Québec, which assumes the remaining pension obligations.

Administrative expenses for the PPFEQ are assumed by the Government du Québec.

c) Retirement benefits

Contributors are entitled to benefits at age 60 if they have 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 obtained by multiplying the average pensionable earnings for the six consecutive best-paid years by 2% per year of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

The PPFEQ provides for payment of a disability benefit to an employee who has been disabled. The benefit is calculated as a regular benefit according to the number of years of pensionable service accumulated to the plan.

e) 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 for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If, at the time of death, the contributor had less than 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 for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than five years' pensionable service. Otherwise, they are entitled to a deferred indexed pension payable at age 60.

g) Indexation of benefits

PPFEQ pension benefits are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES

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

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

	2006	2005
Participation deposits in the individual fund – at fair value (cost 2006: \$183 390; 2005: \$169 508) *	174 653	154 074
Demand deposits in the General Fund (advances)	69	34
Revenue receivable from the individual fund	1 001	1 154
	<u>175 723</u>	<u>155 262</u>
* Cost of units	141 562	132 076
Cumulated gains realized, but not yet distributed by individual portfolios	41 828	37 432
	<u>183 390</u>	<u>169 508</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

5. FINANCIAL INSTRUMENTS

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

6. 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 (RREGOP) entrusted to the Caisse de dépôt et placement du Québec. This annual yield is determined according to the cost exposure. Commitments are estimated \$10 195 000 as at December 31, 2006 (2005: \$9 272 000).

7. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2002 and tabled before the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$85 877 000 at December 31, 2004 and \$96 204 000 at December 31, 2006.

Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	90 476	84 557
Increase		
Change in actuarial assumptions	2 781	
Interest	5 969	6 123
Benefits accrued	2 789	2 387
	11 539	8 510
Decrease		
Corrections to participant data	311	
Actuarial gain	2 948	
Benefits paid	2 552	2 591
	5 811	2 591
Net increase for the year	5 728	5 919
Actuarial present value of accrued pension benefits – end of year	96 204	90 476

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(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:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.60 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.70

Medium-term rates represent the average rates for the period 2005 to 2013, while the long-term rates represent the rates used as of 2014.

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

	2006	2005
Revenue from participation deposits in the individual fund	6 377	5 643
Interest on demand deposits in the General Fund	—	6
	<u>6 377</u>	<u>5 649</u>
Change in fair value		
Gains realized on the sale of investments	4 710	3 306
Gains realized by individual portfolios	4 333	11 113
Unrealized gains (losses)	<u>6 696</u>	<u>(771)</u>
	<u>15 739</u>	<u>13 648</u>

9. SUBSEQUENT EVENT

In 2006, the Government concluded agreements with employee associations, which represent almost all salaried employees of the public service and the health, social services and education networks. The application of these agreements, which over the period November 21, 2001 – November 21, 2007 concern salary adjustments, will affect RREGOP contribution revenues and benefits expenses. The payment of salary adjustments is foreseen for spring 2007. However, on the date the financial statements were prepared, CARRA lacked sufficient information to be able to reasonably estimate the contributions and benefits resulting from settlement of the pay equity file.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec using the contributors' profile as at December 31, 2004 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$85 877 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR
FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH THE GOUVERNEMENT DU QUÉBEC AT
DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENT**

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have performed this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, June 20, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006 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 23, 2007

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, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 4)	152 750	132 582
Accounts receivable		
Employee contributions	310	207
Employer contributions	419	558
Amounts receivable from beneficiaries	13	9
	742	774
Cash on hand	55	84
	<u>153 547</u>	<u>133 440</u>
LIABILITIES		
Contribution refunds and pensions payable	189	113
Prepaid employer contributions	541	744
Administrative expenses payable	142	83
	<u>872</u>	<u>940</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u><u>152 675</u></u>	<u><u>132 500</u></u>

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

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, 2006
(in thousands of dollars)

	2006		2005	
INCREASE IN NET ASSETS				
Employee contributions, including contributions for past service		2 162		1 904
Employer contributions, including contributions for past service				
Pension Plan of Elected Municipal Officers	6 681		5 684	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 788</u>	9 469	<u>2 266</u>	7 950
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)				
Pension Plan of Elected Municipal Officers	5 678		4 894	
Supplemental Pension Plan for Elected Municipal Officials	<u>55</u>	5 733	<u>29</u>	4 923
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		14 163		11 646
Other interest income		<u>12</u>		<u>5</u>
		<u>31 539</u>		<u>26 428</u>
DECREASE IN NET ASSETS				
Benefits paid				
Pensions				
Pension Plan of Elected Municipal Officers	8 222		6 541	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 837</u>	11 059	<u>2 293</u>	8 834
Contribution refunds and transfers, including interest				
Pension Plan of Elected Municipal Officers	138		149	
Supplemental Pension Plan for Elected Municipal Officials	<u>8</u>	146	<u>2</u>	151
Administrative expenses				
Pension Plan of Elected Municipal Officers		<u>159</u>		<u>96</u>
		<u>11 364</u>		<u>9 081</u>
NET INCREASE FOR THE YEAR		20 175		17 347
NET ASSETS AVAILABLE FOR BENEFITS - BEGINNING OF YEAR		<u>132 500</u>		<u>115 153</u>
NET ASSETS AVAILABLE FOR BENEFITS - END OF YEAR		<u>152 675</u>		<u>132 500</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Elected Municipal Officers Supplemental Pension Plan for Elected Municipal Officials

The following description is given for information purposes only. For more complete information concerning these plans, 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 is receiving a retirement pension, his spouse is entitled to a pension of 60% of the pension the person would have been entitled to receive or was receiving. If the person has no spouse, the contributions with interest are reimbursed to the heirs, minus any benefits paid by the PPEMO.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(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' service, contributions with interest are reimbursed to the heirs. If the person has two years' service or more, his or her heirs are entitled to the actuarial valuation of the pension acquired under the PPEMO or SPPEMO.

e) Severance benefits

A person who stops contributing to the PPEMO before being eligible for a retirement pension is eligible for reimbursement of his/her contributions plus interest. If the person is under age 50 and has from two to seven years' service, he/she can choose between having his/her contributions reimbursed with interest or receiving an indexed, deferred pension payable at age 60. If the person is under age 50 and has at least eight years' service, he/she is eligible for an indexed, deferred pension payable at age 60.

The deferred pension includes the amounts of pension credits acquired under the PPEMO or SPPEMO.

f) Indexation of benefits

Pension benefits under the PPEMO are partially indexed to the cost of living increase.

2. ACCOUNTING POLICIES

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

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

The municipalities' prepaid employer contributions will be reported in the item Employer contributions of the PPEMO in the next fiscal year.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in 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 2006, the factor used to establish this provisional contribution was 3.37 times the employee contribution.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

Employee and employer contributions are deposited in the Caisse de dépôt et placement du Québec and the amounts required to benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

The PPEMO is not capitalized and the municipalities' contribution corresponds to the benefits paid by this plan during the fiscal year.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2006	2005
Participation deposits in the individual fund – at fair value (cost 2006: 156 644; 2005: 142 542) *	151 593	131 319
Demand deposits in the General Fund	242	265
Revenue receivable from individual fund	915	998
	<u>152 750</u>	<u>132 582</u>
 * Cost of units	 121 122	 111 502
Cumulated gains realized, but not yet distributed by individual portfolios	<u>35 522</u>	<u>31 040</u>
	<u>156 644</u>	<u>142 542</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 short term.

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the PPEMO administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the PPEMO prepared using data as at December 31, 2003 and presented to the retirement committee on November 7, 2005. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of PPEMO accrued benefits at \$115 954 000 and those of the SPPEMO at \$46 883 000 at December 31, 2003 and estimated the total value of accrued benefits for these plans at \$183 480 000 at December 31, 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2006	2005
Actuarial present value of accrued pension benefits - beginning of year	177 222	165 549
Increase		
Change in actuarial assumptions		5 358
Interest	11 348	11 241
Benefits accrued	6 115	5 407
	17 463	22 006
Decrease		
Actuarial gain		1 348
Benefits paid	11 205	8 985
	11 205	10 333
Net increase for the year	6 258	11 673
Actuarial present value of accrued pension benefits - end of year	183 480	177 222
Composed of:		
PPEMO	135 027	128 968
SPPEMO	48 453	48 254
	183 480	177 222

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.55 %
Rate of return net of inflation	4.50	4.50
Salary escalation net of inflation	0.00	0.00

Medium-term rates represent the average rates for the period 2004 to 2013, while long-term rates represent rates used as of 2014.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLANS OF ELECTED MUNICIPAL OFFICERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

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

	<u>2006</u>	<u>2005</u>
Revenue from participation deposits in the individual fund	5 723	4 909
Interest on demand deposits in the General Fund	<u>10</u>	<u>14</u>
	<u>5 733</u>	<u>4 923</u>
Change in fair value		
Gains realized on the sale of investments	3 659	2 659
Gains realized by individual portfolios	4 332	9 260
Unrealized gains (losses)	<u>6 172</u>	<u>(273)</u>
	<u>14 163</u>	<u>11 646</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of Elected Municipal Officers using the contributors' profile as at December 31, 2003 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$115 954 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF ELECTED MUNICIPAL OFFICERS AT DECEMBER 31, 2003 PERFORMED FOR
THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL
STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 26, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Supplemental Pension Plan for Elected Municipal Officials using the contributors' profile as at December 31, 2003 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$46 883 000.

**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, 2003
PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN
THE FINANCIAL STATEMENTS**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 26, 2006

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, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2006 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006

(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 3)	11 728	11 332
LIABILITIES		
Pensions payable	<u>4</u>	<u>29</u>
NET ASSETS AVAILABLE POUR FOR BENEFITS (Note 5)	<u><u>11 724</u></u>	<u><u>11 303</u></u>

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

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, 2006

(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN NET ASSETS		
Revenue from funds entrusted to the Caisse de dépôts et placement du Québec (Note 6)	460	446
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>1 219</u>	<u>1 180</u>
	<u>1 679</u>	<u>1 626</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	1 214	1 220
Contribution refunds and transfers, including interest	<u>44</u>	<u>107</u>
	<u>1 258</u>	<u>1 327</u>
NET INCREASE FOR THE YEAR	421	299
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>11 303</u>	<u>11 004</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u><u>11 724</u></u>	<u><u>11 303</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for the Mayors and Councillors of Municipalities is given for information purposes only. For more complete information concerning this plan, 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 deficit. Since the Act governing the plan does not specify to whom the remaining surplus belongs or who will assume payment of the benefit until it expires, the parties concerned (government, employers and contributors) will eventually have to rule on this matter.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors were entitled to benefits if they have at least eight years' pensionable service. The pension is calculated on the basis of the employee and employer contributions, plus interest, that have accumulated in the contributor's account. This pension is payable at age 60 and is not indexed to the cost of living increase.

d) 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/are entitled to receive the pension until the 15-year period expires or, upon request, an amount equal to the pension's present value.

If a person dies before beginning to receive his retirement pension, his spouse or heirs is/are entitled to reimbursement of the amounts accumulated in the account.

2. ACCOUNTING POLICIES

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

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 THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousand of dollars)

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2006	2005
Participation deposits in the individual fund – at fair value (cost 2006: 12 047; 2005: 12 207) *	11 658	11 246
Demand deposits in the General Fund	70	86
Revenue receivable from the individual fund	11 728	11 332
	<u>11 728</u>	<u>11 332</u>
 * Cost of units	 8 432	 8 797
Cumulated gains realized, but not yet distributed by individual portfolios	3 615	3 410
	<u>12 047</u>	<u>12 207</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 short term.

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the actuarial valuation for the Retirement plan for the mayors and councillors of municipalities prepared using data as at December 31, 2003 and presented to the retirement committee on December 7, 2005. 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 2004 to 2013 is 7.03% while the long-term rate is 8% as of 2014.

CARRA actuaries established the actuarial value of accrued benefits at \$13 100 000 at December 31, 2003 and estimated it at \$11 436 000 as at December 31, 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

5. PENSION OBLIGATIONS (cont'd)
Changes in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits		
- beginning of year	11 959	13 050
Increase		
Correction to participation data		7
Interest	735	793
	735	800
Decrease		
Actuarial gain		359
Change in actuarial assumptions		205
Benefits paid	1 258	1 327
	1 258	1 891
Net decrease for the year	523	1 091
Actuarial present value of accrued pension benefits		
- end of year	11 436	11 959

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

	2006	2005
Net investment income from the individual fund	460	446
Change in fair value		
Gains realized on the sale of investments	293	241
Gains realized by individual portfolios	354	835
Unrealized gains	572	104
	1 219	1 180

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Retirement Plan for the Mayors and Councillors of Municipalities using the contributors' profile as at December 31, 2003 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$13 100 000.

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, 2003 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 14, 2006

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, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	75 692	68 896
Accounts receivable		
Employee contributions	8	6
Employer contributions	4	2
	12	8
Cash on hand	398	
	76 102	68 904
LIABILITIES		
Surplus employee contributions to be refunded	1	1
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u>76 101</u>	<u>68 903</u>

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

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, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	25	25
Employer contributions, including contributions for past service	18	20
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	2 787	2 523
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>7 043</u>	<u>6 255</u>
	<u>9 873</u>	<u>8 823</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	2 267	2 222
Transfers, including interest	<u>408</u>	
	<u>2 675</u>	<u>2 222</u>
NET INCREASE FOR THE YEAR	7 198	6 601
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>68 903</u>	<u>62 302</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u><u>76 101</u></u>	<u><u>68 903</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 THE FINANCIAL STATEMENTS**

December 31, 2006

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges is given for information purposes only. For more complete information concerning this plan, 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 obligations.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have five or more years' pensionable service or at age 55 if they have 30 or more years' pensionable service.

Contributors are entitled to an actuarially reduced pension at age 50 if they have 25 years' pensionable service.

The pension is obtained by multiplying the average pensionable earnings for the six consecutive best-paid years by 2% per year of service (maximum 35 years' service). The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

A disability benefit is payable to participants that become disabled. It is calculated like regular benefits based on the number of years of service accumulated under the Plan.

e) Death benefits

If a person dies with less than five years' service or when receiving a retirement pension, his/her spouse is entitled to a pension of 50% of the amount that the person entitled to receive the pension or receiving it was entitled to, without taking into account the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If the person dies and has less than five years' service, the spouse, or if there is no spouse, the heirs, is/are entitled to reimbursement of the contributions with interest.

f) Severance benefits

Persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a deferred indexed pension at age 60 if they have at least 10 years' pensionable service and are aged 45 or over; otherwise, they can choose between a deferred pension or a refund of contributions with interest.

g) Indexation of benefits

Pension benefits under this plan are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

2. ACCOUNTING POLICIES

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

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 are 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

	2006	2005
Participation deposits in the individual fund – at fair value (cost- 2006: 79 025; 2005: 75 232) *	75 260	68 382
Demand deposits in the General Fund		2
Revenue receivable from the individual fund	432	512
	<u>75 692</u>	<u>68 896</u>
 * Cost of units	 59 242	 57 305
Cumulated gains realized, but not yet distributed by the individual portfolios	<u>19 783</u>	<u>17 927</u>
	<u>79 025</u>	<u>75 232</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousand of dollars)

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, surplus employee contributions and pensions payable is equal to their book value, given that they mature in the short term.

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted the accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable 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. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$31 132 000 as at December 31, 2004 and estimated it at \$30 455 000 as at December 31, 2006.

Changes in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	30 792	30 737
Increase		
Change in actuarial assumptions	499	
Interest	1 936	2 153
Benefits accrued	132	124
	2 567	2 277
Decrease		
Actuarial gain	229	
Benefits paid	2 675	2 222
	2 904	2 222
Net increase (decrease) for the year	(337)	55
Actuarial present value of accrued pension benefits – end of year	30 455	30 792

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.60 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.70

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

6. PENSION OBLIGATIONS (cont'd)
Significant economic assumptions (cont'd)

Medium-term rates represent the average rates for the period 2005 to 2013, while long-term rates represent the rates used as of 2014.

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

	2006	2005
Net investment income from the individual fund	2 784	2 523
Interest on demand deposits in the General Fund	3	
	<u>2 787</u>	<u>2 523</u>
Change in fair value		
Gains realized on the sale of investments	2 055	1 480
Gains realized by the individual portfolios	1 904	4 971
Unrealized gains (losses)	<u>3 084</u>	<u>(196)</u>
	<u>7 043</u>	<u>6 255</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges using the contributors' profile as at December 31, 2004 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$31 132 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
AT DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, July 12, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2006 and changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud, Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 3)	\$1 497 363	\$1 431 996
Cash on hand	<u>16</u>	<u>269</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 5 and 6)	<u><u>\$1 497 379</u></u>	<u><u>\$1 432 265</u></u>

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

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, 2006

	<u>2006</u>	<u>2005</u>
INCREASE IN NET ASSETS		
Employer contributions, including contributions for past service	\$8 411	\$7 516
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	57 194	54 598
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>149 134</u>	<u>143 862</u>
	<u>214 739</u>	<u>205 976</u>
DECREASE IN NET ASSETS		
Benefits paid Pensions	<u>149 625</u>	<u>150 403</u>
NET INCREASE FOR THE YEAR	65 114	55 573
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>1 432 265</u>	<u>1 376 692</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u><u>\$1 497 379</u></u>	<u><u>\$1 432 265</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS****NOTES TO THE FINANCIAL STATEMENTS**December 31, 2006

1. DESCRIPTION OF THE PLANS**Pension plan of the former employees of the City of Saint-Laurent**

The following description of the Pension Plan of the Former Employees of the City of Saint-Laurent is given for information purposes only. For more complete information concerning this plan, 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 the heirs are entitled to reimbursement of the person's contributions without interest minus any benefits paid.

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan of the former employees of the Town of Westmount

The following description of the Pension Plan of the Former Employees of the Town of Westmount is given for information purposes only. For more complete information concerning this plan, please consult Order-in-Council 2174-84 of the Gouvernement du Québec.

a) General information

The Plan is administered by CARRA. It is a defined-benefit pension plan offered to former employees of the Town of Westmount who contributed to the general pension plan of the Town of Westmount and who were integrated into the Montreal General Hospital as of April 1, 1976.

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

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 THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the former employees of the Town of Westmount (cont'd)

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais

The following description of the Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais is given for information purposes only. For more complete information concerning this plan, please consult Orders-in-Council 2661-76 and 40-89 of the Gouvernement du Québec:

a) General information

The Plan is administered by CARRA. It is defined-contribution pension plan.

b) Funding

Contributions are no longer paid into this plan, with the exception of employer contributions for the purpose of indexing pensions paid. Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

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/are entitled to receive the pension until the 15-year period expires, or an amount equal to the pension's present value.

d) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase.

2. ACCOUNTING POLICIES

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

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 THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2006	2005
Participation deposits in the individual fund – at fair value (cost- 2006: \$1 563 226; 2005: \$1 563 659) *	\$1 488 749	\$1 421 297
Revenue receivable from the individual fund	8 614	10 699
	<u>\$1 497 363</u>	<u>\$1 431 996</u>
 * Cost of units	 \$1 167 129	 \$1 191 650
Cumulated gains realized, but not yet distributed by the individual portfolios	396 097	372 009
	<u>\$1 563 226</u>	<u>\$1 563 659</u>

4. FINANCIAL INSTRUMENTS

The fair value of cash is equal to its book value.

5. NET ASSETS AVAILABLE FOR BENEFITS

	2006	2005
Pension Plan of the Former Employees of the City of Saint-Laurent	\$943 496	\$906 977
Pension Plan of the Former Employees of the Town of Westmount	305 985	283 157
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	247 898	242 131
	<u>\$1 497 379</u>	<u>\$1 432 265</u>

6. PENSION OBLIGATIONS**Valuation of pension obligations**

In keeping with Canadian generally accepted accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable hypotheses according to the Plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuations prepared using data from the Government and Public Employees Retirement Plan (RREGOP) as at December 31, 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 2007 to 2013 is 7.25% and is 8% after 2013.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2006	2005
Actuarial present value of accrued pension benefits, beginning of year	<u>\$1 180 047</u>	<u>\$1 268 591</u>
Increase		
Actuarial loss	29 715	
Change in actuarial assumptions		857
Interest	<u>71 841</u>	<u>77 570</u>
	101 556	78 427
Decrease		
Actuarial gain		16 568
Benefits paid	<u>149 625</u>	<u>150 403</u>
	149 625	166 971
Net decrease for the year	<u>48 069</u>	<u>88 544</u>
Actuarial present value of accrued pension benefits, end of year	<u>\$1 131 978</u>	<u>\$1 180 047</u>
Composed of:		
Pension Plan of the Former Employees of the City of Saint-Laurent	\$725 231	\$755 631
Pension Plan of the Former Employees of the Town of Westmount	126 702	132 303
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>280 045</u>	<u>292 113</u>
	<u>\$1 131 978</u>	<u>\$1 180 047</u>

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

	2006	2005
Net investment income from the individual fund	\$56 966	\$54 559
Interest on demand deposits in the General Fund	<u>228</u>	<u>39</u>
	<u>\$57 194</u>	<u>\$54 598</u>
Change in fair value		
Gains realized on the sale of investments	\$42 068	\$31 968
Gains realized by individual portfolios	39 180	107 421
Unrealized gains	<u>67 886</u>	<u>4 473</u>
	<u>\$149 134</u>	<u>\$143 862</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Former Employees of the City of Saint-Laurent using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$725 231.

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, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 26, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Former Employees of the Town of Westmount using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$126 702.

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, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE
PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 26, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Chairman of the Conseil de la Communauté urbaine de l'Outaouais using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$280 045.

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, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 26, 2007

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, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2006 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 23, 2007

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, 2006

(in thousands of dollars)

	2006	2005
CONTRIBUTIONS		
Employee contributions, including contributions for past service		
Pension Plan of the Members of the National Assembly	1 115	1 025
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>1 115</u>	<u>1 025</u>
BENEFITS		
Benefits paid		
Pensions		
Pension Plan of the Members of the National Assembly	8 752	8 691
Supplement pension plan for members of the National Assembly	2 620	2 473
Special Pension	<u>12</u>	<u>12</u>
	11 384	11 176
Contribution refunds and transfer including interest		
Pension Plan of the Members of the National Assembly	150	
Administrative expenses		
Pension Plan of the Members of the National Assembly	<u>12</u>	<u>22</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>11 546</u>	<u>11 198</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 5)**

Duc Vu
Chairman of the Commission

Pierre Lemire, CA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the members of the National Assembly Supplemental pension plan for members of the National Assembly Special Pension Plan

The following description is given for information purposes only. For more complete information concerning these plans, 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 pension obligations.

For the SPPMNA and the special pension, benefits are entirely funded by the Government.

c) Retirement benefits

A contributor who ceases to be a Member of the National Assembly is entitled to benefits without an actuarial reduction at age 60 or to an actuarially reduced pension if he/she is under 60. However, this pension is payable, at the latest, on December 31 of the year in which the contributor turns 69 even if he/she is still a Member of the National Assembly.

The pension is equal to total pension credits calculated annually by multiplying the admissible indemnity received by 1.75%, without exceeding 25 years' participation. These pension credits are indexed to the cost of living increase up until the time the contributor retires.

Any contributor who was an MNA prior to January 1, 1983 and at January 1, 1992, is also entitled to a pension equal to 75% of total contributions credited prior to January 1, 1983, which were not reimbursed and which were indexed since January 1, 1984. This percentage may be lower than 75% if the MAN was not in office at December 31, 1991 and had less than eight years' service.

Contributors acquire the right to SPPMNA benefits the date they acquire the right to a retirement pension under the basic plan. The benefit equals the total of the amounts calculated annually, which corresponds to the surplus of 4% of the total annual compensation over the pension credit calculated according to the PPMNA. Benefits are indexed to the rise in the cost of living until the contributor retires.

The amount of the special pension paid to the widow of Pierre Laporte was set by law.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND PECIAL PENSION PLAN****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(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

Upon the death of a person contributing to the PPMNA or receiving retirement pension benefits, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible for a pension equal to 10% of this pension or, if no pension is paid to the spouse, to 20% of the pension.

Contributors who, before January 1, 1992, had opted to continue their pension at 50% or 100% in favour of the surviving spouse, the option chosen remains applicable.

The pension paid to the spouse and dependent children, or to the latter alone, cannot exceed the amount of pension the Member was receiving or would have received.

The rules apply to both the basic plan and the SPPMNA.

e) Severance benefits

Under certain conditions, persons who cease to contribute to the PPMNA before being eligible for an immediate pension are entitled to the refund of the actuarial value of the pension.

f) Indexation of benefits

Pension benefits under the PPMNA and SPPMNA are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to January 1, 1983, and are partially indexed for that portion of the pension which corresponds to vested service after December 31, 1982.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, revenues and expenses and evaluation of pension obligations reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee contributions

Adjustments to employee contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

The employee contribution for the fiscal year to the PPMNA is 9% of pensionable earnings. The SPPMNA is not contributory.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act respecting the conditions of employment and the pension plan of the Members of the National Assembly does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations must be determined according to the projected benefit method prorated by service and the most probable assumptions 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, 2002 and presented to the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)

CARRA actuaries established the actuarial value of accrued benefits for the PPMNA and the SPPMNA at \$162 044 000 as at December 31, 2004 and estimated it at \$170 449 000 as at December 31, 2006.

Change in pension obligations

	2006	2005
Actuarial present value of accrued pension benefits – beginning of year	155 476	151 510
Increase		
Actuarial loss	2 187	
Change in actuarial assumptions	3 092	
Changes to plans	5 698	
Interest	10 599	10 738
Benefits accrued	5 147	4 404
	26 723	15 142
Decrease		
Corrections to participant data	216	
Benefits paid	11 534	11 176
	11 750	11 176
Net increase for the year	14 973	3 966
Actuarial present value of accrued pension benefits – end of year	170 449	155 476

Significant long-term economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50 %	2.60 %
Rate of return net of inflation	4.50	4.50
Salary escalation rate net of inflation	1.00	0.00

Medium-term rates represent the average rates for the period 2005 to 2013 while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if these plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The pension costs for the plan corresponds to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2006	2005
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>153 743</u>	<u>153 449</u>
Increase		
Contributions recovered	1 028	1 034
Pension costs		
Current service	3 416	3 429
Past service	(2 709)	(2 709)
Interest	<u>10 055</u>	<u>9 824</u>
	11 790	11 578
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>11 325</u>	<u>11 284</u>
Net increase	<u>465</u>	<u>294</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>154 208</u>	<u>153 743</u>
Estimated liability recorded as at December 31	<u><u>154 660</u></u>	<u><u>153 749</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, 2006: \$57 193 billion). At December 31, 2006, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$26 222 billion, \$13 890 billion of which are slated for the RREGOP and \$1 875 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

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Members of the National Assembly using contributors' profiles as at December 31, 2004 to determine the value of the obligations to be posted to the plan's financial statement. It reveals that, at that date, this value was \$110 986 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE MEMBERS OF THE NATIONAL ASSEMBLY AT DECEMBER 31, 2004
PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN
THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 8, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Supplemental Pension Plan for the Members of the National Assembly using contributors' profile as at December 31, 2004 in order to determine the value of the obligations to be posted to the plan's financial statement. It reveals that, at that date, this value was \$51 058 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR THE MEMBERS OF THE NATIONAL ASSEMBLY AT
DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 8, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans of the Members of the National Assembly and of the special pension plan for the year ended December 31, 2006. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits for these plans for the year ended December 31, 2006, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Acting Auditor General of Québec

Québec, March 23, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)

INCOME AND SURPLUS
for the year ended December 31, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
EXPENDITURE		
Salaries and fringe benefits	29 350	27 719
Professional fees	6 984	4 808
Communications and transportation	1 994	1 945
Space and equipment rental	2 865	2 495
Equipment	912	1 664
Office supplies	229	333
Maintenance and repairs	1 061	906
Interest on long-term debt	188	47
Other expenses	84	88
Write-off of computer systems development	88	
Amortization of capital assets	<u>5 165</u>	<u>3 261</u>
	<u>48 920</u>	<u>43 266</u>
REVENUE		
Expenses assumed by the RREGOP		
Employee contributions fund	20 128	17 792
Employer contributions fund	20 128	17 792
Expenses assumed by the PPMP		
Employee contributions fund	1 538	1 447
Employer contributions fund	1 538	1 447
Other plans	5 544	4 759
Other sources	<u>297</u>	<u>120</u>
	<u>49 173</u>	<u>43 357</u>
SURPLUS FOR THE YEAR	253	91
SURPLUS – BEGINNING OF YEAR	<u>100</u>	<u>9</u>
SURPLUS – END OF YEAR	<u>353</u>	<u>100</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

BALANCE SHEET
as at December 31, 2006
(in thousand of dollars)

	2006	2005
ASSETS		
Current assets		
Cash on hand	1 270	825
Accounts receivable	3 474	4 839
Demand deposit to the Caisse de dépôt et placement du Québec – at cost 4.25%)	3 078	3 037
	<u>7 822</u>	<u>8 701</u>
Capital assets (Note 3)	41 243	21 654
Owed by the pension plans	18 157	9 354
	<u>59 400</u>	<u>31 008</u>
	<u>67 222</u>	<u>39 709</u>
LIABILITIES		
Current liabilities		
Short-term borrowings (Note 4)	17 500	
Accounts payable and accrued liabilities (Note 5)	10 325	5 338
Instalments on long-term debt (Note 6)	243	323
	<u>28 068</u>	<u>5 661</u>
Long-term debt (Note 6)	4 210	2 332
Deferred contributions (Note 7)	23 977	21 654
Provision for sick leave and vacation time (Note 8)	10 614	9 962
	<u>66 869</u>	<u>39 609</u>
SURPLUS	353	100
	<u>67 222</u>	<u>39 709</u>

COMMITMENTS (Note 12)

Duc Vu
Chairman of the Commission

Pierre Delisle, CGA
Coordinator, Retirement Plan
Accounting

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CASH FLOW
for the year ended December 31, 2006
(in thousand of dollars)

	2006	2005
OPERATING ACTIVITIES		
Surplus for the year	253	91
Items not affecting liquid assets		
Amortization of capital assets	5 165	3 261
Write-off of computer systems development	88	
Amortization of deferred contributions	(5 165)	(3 261)
	341	91
Changes in assets and liabilities related to operation		
Accounts receivable	1 365	(1 785)
Owed by the pension plans	(8 803)	(2 582)
Accounts payable and accrued liabilities	3 675	604
Deferred contributions – financing from plans	7 488	11 529
Provisions for sick leave and vacation time	652	88
	4 377	7 854
Cash flows from operating activities	4 718	7 945
FINANCING ACTIVITIES		
Short-term borrowing	17 500	
Repayment of the long-term debt	(667)	(294)
Cash flows from financing activities	16 833	(294)
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(21 065)	(7 456)
Cash flows used for investment activities	(21 065)	(7 456)
INCREASE IN CASH AND CASH EQUIVALENTS	486	195
CASH AND CASH-EQUIVALENTS – BEGINNING OF YEAR	3 862	3 667
CASH AND CASH EQUIVALENTS – END OF YEAR (Note 9)	4 348	3 862

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(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

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

Capital assets

Capital assets are recorded at cost. Computer systems development includes the cost of administrative design, preparation and implementation.

Capital assets are amortized in accordance with the straight-line method over their 5-year service life.

Amortization of a capital asset being developed begins when the computer system becomes operational.

Amortization of long-term assets

Long-term assets are reviewed to determine whether their value has decreased when events or changes in the situation lead one to believe that the book value of an asset might not be recoverable. The depreciation is estimated by comparing the book value of an asset with the net unrealized cash flows foreseen for its use and eventual transfer. If CARRA deems that the value of the assets has decreased, the amount of the depreciation is posted to the fiscal year's charges.

Deferred contributions

Contributions received for the acquisition of amortizable capital assets are deferred and transferred to results using the same method and same rates as for the amortization of the capital assets they are related to.

Pension plans

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

Cash and cash equivalents

It is CARRA's policy to present bank balances and short-term investments maturing within three months of the date they were acquired under cash and cash equivalents.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

3. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Integrated furniture	8 147	3 726	4 421	3 014
Computer equipment	4 829	2 792	2 037	1 955
Equipment	43	25	18	27
	<u>13 019</u>	<u>6 543</u>	<u>6 476</u>	<u>4 996</u>
Intangible assets				
Computer system development *				
PGI projects	24 715		24 715	7 029
Other projects	24 209	14 157	10 052	9 629
	<u>48 924</u>	<u>14 157</u>	<u>34 767</u>	<u>16 658</u>
	<u>61 943</u>	<u>20 700</u>	<u>41 243</u>	<u>21 654</u>

The cost of capital assets includes an unamortized amount of \$25 008 283, since development work had not been completed and systems were not yet operational at fiscal year-end.

This amount breaks down as:

- global investment plan (PGI): \$24 715 138 for computer system development (2005: \$7 028 875);
- other projects: \$293 145 for computer system development (2005: \$3 615 396);
- computer equipment: \$0 (2005: \$77 080).

* CARRA undertook a complete, in-depth modernization of its business processes and its systems, resulting in a global investment plan proposing a new business vision and new corporate structure. In this context, CARRA presents separately in its financial statements, in the “Capital assets” section, global investment plan (PGI) projects, including the renewal and integration of key systems (RISE) project and others.

4. SHORT-TERM BORROWINGS

To carry out the PGI, the Gouvernement du Québec authorized CARRA to contract short-term borrowings or borrowings on a credit line until December 31, 2009. The amount of these borrowings is limited to \$87 136 735. According to the agreements between the parties, the RREGOP and the PPME committed to assuming 93% and 7% respectively of the GIP's computer system development costs. The cost related to these developments is expected to be posted to the RREGOP and the PPME at the rate as CARRA amortizes them as of the date they become operational.

The borrowings will be contracted from the Financing Fund of the Gouvernement du Québec. The interest rate applied daily to the balance of borrowings corresponds to the average one-month bank acceptance rate. A 3% margin is added to this rate for borrowing issuing and management fees. At December 31, 2006, the amount borrowed by CARRA totalled \$17 500 000.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In 2006, the Government reached agreements with the public service's different employee associations. These agreements apply from November 21, 2001 to November 21, 2007. At December 31, 2006, \$1 470 000 (\$123 000 of which is interest) is included in accounts payable and accrued liabilities for retroactive salaries owing to CARRA employees in the pay equity context.

6. LONG-TERM DEBT

	2006	2005
Borrowings from the Société immobilière du Québec		
Rate of 4.70%, repayable in monthly instalments of \$18 079, maturing April 31, 2021	2 259	
Rate of 4.69%, repayable in monthly instalments of \$6 308, maturing November 30, 2020	772	811
Rate of 4.69%, repayable in monthly instalments of \$11 115, maturing August 31, 2020	1 344	1 412
Rate of 4.69%, repayable in monthly instalments of \$1 781, maturing December 31, 2010	78	
Ten other borrowings at rates varying from 4.69% to 6.68%, repayable in monthly instalments of \$403 to \$7 152, repaid in 2006		432
	4 453	2 655
Portion maturing in the coming fiscal year	243	323
	4 210	2 332

Capital payments to be made over the next five fiscal years

2007	243
2008	255
2009	267
2010	280
2011	272
	1 317

7. DEFERRED CONTRIBUTIONS

	2006	2005
Balance, beginning of year	21 654	13 386
Deferred contributions for the fiscal year		
Funding from plans	7 488	11 529
Amortization of deferred contributions	(5 165)	(3 261)
Balance, end of year	23 977	21 654

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

8. FUTURE FRINGE BENEFITS

Pension plans

CARRA staff participates in the Government and Public Employees Retirement Plan, the Pension Plan of Management Personnel and the Civil Service Superannuation Plan. These are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

CARRA's contributions charged to the year-end statement totalled \$1 584 622 (2005: \$1 463 287). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2006			2005
	Sick leave	Vacation time	Total	Total
Balance, beginning of year	6 742	3 220	9 962	9 874
Plus				
Expenditures for the year	1 290	2 766	4 056	3 255
Less				
Benefits paid during the year	824	2 580	3 404	3 167
Balance, end of year	7 208	3 406	10 614	9 962

The provision for sick leave and vacation time is fully recoverable from the various pension plans.

9. CASH FLOWS

The cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

	2006	2005
Cash	1 270	825
Demand deposit to the Caisse de dépôt et placement du Québec	3 078	3 037
	4 348	3 862

The interest paid by CARRA over the fiscal year was \$187 699 (2005: \$46 568).

During the fiscal year, CARRA acquired capital assets at a cost of \$24 841 821 (2005: \$11 528 765), \$1 311 579 of which is included in supplier accounts at December 31, 2006. It also took on a long-term debt of \$2 463 528 (2005: \$2 420 572) and a short-term borrowing of \$17 500 000.

10. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM

CARRA has administered a retirement preparation program for Gouvernement du Québec employees. CARRA has been authorized to bill the government departments and agencies for the costs related to meetings and to establish a local fund for this purpose. Fund transactions break down as:

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousand of dollars)

10. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM (cont'd)

	2006	2005
Local fund balance, beginning of year	47	65
Revenue	950	991
Expenditure	(891)	(1 009)
Local fund balance, end of year	<u>106</u>	<u>47</u>

11. 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 of its receivables come from pension plan funds.

Interest-rate risk

Financial assets and liabilities bearing interest at a fixed rate do not expose CARRA to major rate fluctuation risks. For variable-rate financial instruments, each 1% fluctuation in the interest rate on their balance at fiscal year-end causes net results to vary by \$30 674.

Fair value of financial instruments

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

The fair value of the item "Owed by the pension plans" cannot be estimated reliably enough given the lack of market for this type of financial asset.

The fair value of the long-term debt is evaluated using analyses of realized cash flows according to the corresponding current borrowing rate that applies to similar borrowings. The fair value of the long-term debt at December 31, 2006 is \$4 470 049 (2005: \$2 668 028).

12. COMMITMENTS

At December 31, 2006, the contractual commitments for the acquisition of goods and services related to equipment lease contracts and professional fees break down as:

2007	28 871
2008	22 516
2009	10 014
2010	<u>2 037</u>
	<u>63 438</u>

12. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**MANAGEMENT'S REPORT**

The financial statements of CARRA were prepared by management, which is responsible for their preparation, presentation and the significant estimates and judgements included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements. Estimates were made to the best of management's knowledge.

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

The internal 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 perform an actuarial valuation every three years and an annual estimate of the pension obligations entered in its financial statements in accordance with generally accepted actuarial practices. They report the results of their valuation to CARRA.

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 CARRA's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committees to discuss any element concerning the audit.

Duc Vu
Chairman of the Commission

Québec, March 30, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission administrative des régimes de retraite et d'assurances (CARRA) for the year ended December 31, 2006 and the statement of change in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA's management. My responsibility is to express an opinion on this financial statement based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, CARRA's financial position as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 30, 2007

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC
(R.S.Q., c. C-33.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007			2006
	Current transactions	Fund to develop and enhance the capital	Total	Total
REVENUES				
Gouvernement du Québec subsidies (Note 3)	\$12 923 689		\$12 923 689	\$12 815 808
Partners' contributions (Note 4)	1 239 195		1 239 195	499 679
Interest	394 514	\$80 037	474 551	201 932
Ticket office and educational activities	281 458		281 458	296 205
Rent	165 771		165 771	144 013
Other	65 577		65 577	111 415
	<u>15 070 204</u>	<u>80 037</u>	<u>15 150 241</u>	<u>14 069 052</u>
EXPENSES				
Financial assistance (Note 5)	5 254 538	114 620	5 369 158	5 559 770
Salaries and fringe benefits	2 349 839		2 349 839	2 305 033
Property and school taxes	875 348		875 348	942 746
Professional and administrative services	2 608 588	477 708	3 086 296	1 522 019
Transportation and communications	287 538		287 538	253 834
Maintenance and repairs	611 263		611 263	479 281
Materials and supplies	360 053	67 352	427 405	224 848
Rent	469 413		469 413	486 155
Depreciation of capital assets	286 983		286 983	265 121
Financial expenses (Note 6)	1 376 101		1 376 101	1 511 861
	<u>14 479 664</u>	<u>659 680</u>	<u>15 139 344</u>	<u>13 550 668</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$590 540</u>	<u>\$(579 643)</u>	<u>\$10 897</u>	<u>\$518 384</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

STATEMENT OF CHANGE IN FUND BALANCES
for the year ended March 31, 2007

	2007				2006
	Current transactions		Fund to develop and enhance the capital	Total	Total
	Investments in fixed assets	Fund balance			
OPENING BALANCE	\$925 011		\$3 041 637	\$3 966 648	\$3 448 264
Excess (deficiency) of revenues over expenses	(286 983)	\$877 523	(579 643)	10 897	518 384
Investments in fixed assets	321 367	(321 367)			
	959 395	556 156	2 461 994	3 977 545	3 966 648
Inter-fund transfer (Notes 2 and 18)		(556 156)	556 156		
CLOSING BALANCE	\$959 395		\$3 018 150	\$3 977 545	\$3 966 648

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007			2006
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
ASSETS				
Current assets				
Cash on hand	\$1 806 053	\$2 230 130		\$4 036 183
Accounts receivable and accrued interest (Note 7)	981 463	8 098		989 561
Inter-fund receivable, interest-free, no repayment terms		845 631	\$(845 631)	
Prepaid expenses	389 003			389 003
Gouvernement du Québec subsidies receivable	5 450 151			5 450 151
Contributions receivable (Note 8)	5 313 679			5 313 679
	<u>13 940 349</u>	<u>3 083 859</u>	<u>(845 631)</u>	<u>16 178 577</u>
Cash reserved for acquisition of capital assets	10 338 020			10 338 020
Deposit on acquisition of capital assets (Note 9)	2 089 010			2 089 010
Gouvernement du Québec subsidies receivable	57 764 173			57 764 173
Contributions receivable (Note 8)	25 000			25 000
Deferred expenses, at amortized cost	125 898			125 898
Capital assets (Note 10)	<u>51 156 254</u>			<u>51 156 254</u>
	<u>\$135 438 704</u>	<u>\$3 083 859</u>	<u>\$(845 631)</u>	<u>\$137 676 932</u>
				<u>\$65 725 846</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2007

	2007			2006
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
LIABILITIES				
Current liabilities				
Suppliers and other charges payable (Note 12)	\$4 826 558	\$65 709		\$2 658 686
Inter-fund receivable, interest-free, no repayment terms	845 631		\$(845 631)	
Deferred Gouvernement du Québec subsidies (Note 13)	905 986			232 380
Deferred contributions (Note 14)	247 452			1 032 668
Portion of debt due next year (Note 15)	4 966 009			4 464 788
	<u>11 791 636</u>	<u>65 709</u>	<u>(845 631)</u>	<u>8 388 522</u>
Deferred contributions (Note 14)	41 382			55 465
Long-term debt (Note 15)	57 822 331			29 070 450
Deferred contributions reserved for acquisition of capital assets	14 728 203			512 316
Deferred contributions related to capital assets (Note 16)	32 035 804			5 662 424
	<u>116 419 356</u>	<u>65 709</u>	<u>(845 631)</u>	<u>43 689 177</u>
EQUITY				
Gouvernement du Québec contribution (Note 17)	18 059 953			18 070 021
Fund balance —				
Invested in capital assets	959 395			925 011
Fund to develop and enhance the capital		3 018 150		3 041 637
	<u>19 019 348</u>	<u>3 018 150</u>		<u>22 036 669</u>
	<u>\$135 438 704</u>	<u>\$3 083 859</u>	<u>\$(845 631)</u>	<u>\$65 725 846</u>

COMMITMENTS (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Langlois, President and Chief Executive Officer
Marie-France Poulin, President, Auditing Committee

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007		2006
	Current transactions	Fund to develop and enhance the capital	Total
OPERATING ACTIVITIES			
Receipts			
Gouvernement du Québec subsidies	\$(15 630 986)		\$5 735 857
Partners' and clients' contributions	1 869 209		629 988
Inter-fund debt		\$289 709	130 786
Interest earned	394 755	78 001	211 575
Expenditures			
Suppliers and staff members	(12 758 814)	(673 643)	(17 402 786)
Inter-fund debt	(289 709)		(130 786)
Interest paid	(1 403 996)		(1 518 623)
Cash flows used for operating activities	(27 819 541)	(305 933)	(12 343 989)
INVESTMENT ACTIVITIES			
Deposit on acquisition of capital assets			(2 089 010)
Acquisition of capital assets	(24 725 161)		(7 204 021)
Cash flows used for investment activities	(24 725 161)		(9 293 031)
FINANCING ACTIVITIES			
Cash reserved for the acquisition of capital assets	(9 825 704)		(32 992)
Long-term debt	33 570 425		8 400 642
Repayment of long-term debt	(4 317 323)		(2 369 382)
Deferred contributions reserved for acquisition of capital assets	8 254 510		32 992
Deferred contributions related to capital assets	26 373 380		4 642 853
Gouvernement du Québec contribution	(10 068)		3 581 174
Cash flows provided by financing activities	54 045 220		14 255 287
INCREASE (DECREASE) IN CASH ON HAND	1 500 518	(305 933)	(7 381 733)
CASH ON HAND, BEGINNING OF YEAR	861 691	1 979 907	10 223 331
Inter-fund transfer	(556 156)	556 156	
CASH ON HAND, END OF YEAR	\$1 806 053	\$2 230 130	\$2 841 598

Capital assets totalling \$3 469 842 (2006: \$1 270 049) are included under Suppliers and other charges payable.

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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 the work designed to improve access to the capital;
- support the organization and promotion of activities and events of a historical, cultural and social nature that give prominence to the capital.

The Commission advises the Government on:

- the location of government offices and departments or other government bodies and their employees;
- the construction, preservation, planning and development of buildings housing government offices and departments or other government bodies in the territory of the Communauté métropolitaine de Québec;
- the layout, in the territory of the Communauté métropolitaine de Québec, of transport and communications infrastructures providing access to the capital, the designation of ceremonial routes, the location of diplomatic missions and international organizations, and the conditions applicable to international presence;
- the planning and development of the territory of the Communauté métropolitaine de Québec and of the territory of local municipalities and regional county municipalities forming part of the Communauté métropolitaine de Québec.

Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

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

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 reporting

The Commission uses the deferral method to record contributions. Contributions are reported in the fiscal year in which the related charges were incurred. The contributions of non-restricted partners are reported as proceeds when received or receivable if the amount can be reasonably estimated and if it is relatively certain that it will be received.

Gouvernement du Québec subsidies receivable

Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which the Commission obtained the funding or carried out the work entitling it to these subsidies.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Financial assistance**

Financial assistance is posted to charges when the facts giving rise to it occur, inasmuch as it was authorized and the beneficiaries met the eligibility criteria, where applicable.

Deferred expenses

Deferred expenses comprise long-term debt issuing and management costs. Amortization is calculated using the straight-line method over the duration of the debt it is related to.

Capital assets

Capital assets are recorded at acquisition cost. For parks development, the cost includes interest on the long-term debt incurred over the development period. The amortization is calculated using the following methods:

	Method	Rate
Data processing equipment	Straight-line	33 1/3%
Office furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	20%
Automotive equipment	Straight-line	33 1/3%
Parks development	Straight-line	20%

Given its historic value, permanency and classification by the Ministère de la Culture et des Communications, cultural property is not amortized, nor is development in progress.

The Commission regularly examines the book value of its capital assets, comparing it with the unrealized future cash flows that they should generate. Any surplus in the 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 inter-enterprise 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

	2007	2006
Ministère des Transports —		
Operations	\$10 611 695	\$11 062 820
Repayment of interest on the long-term debt	1 311 484	1 442 628
Specific projects —		
Development of Avenue Honoré-Mercier	14 525	19 325
Enhancement of National Assembly building		10 546
Public investment acceleration plan	197 195	117 637
Fontaine de Tourny	749 426	118 900
Ministère de la Culture et des Communications —		
Repayment of interest on the long-term debt	39 364	43 952
	<u>\$12 923 689</u>	<u>\$12 815 808</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. PARTNERS' CONTRIBUTIONS

	2007	2006
Québec City	\$795 577	\$239 684
Société des établissements de plein air du Québec	106 074	
Séminaire de Québec	88 584	36 416
Ministère des Transports	39 301	58 218
Ministère de l'Éducation	17 500	15 000
Assemblée nationale	7 249	11 953
Ministère de la Culture et des Communications	5 916	22 018
Société immobilière du Québec	5 133	1 519
Ministère du Conseil exécutif	2 500	
Société du Grand Théâtre de Québec	1 250	
Hydro-Québec		13 769
Agence de l'efficacité énergétique		4 588
Other	170 111	96 514
	<u>\$1 239 195</u>	<u>\$499 679</u>

5. FINANCIAL ASSISTANCE

	2007	2006
Ville de Québec	\$5 000 000	\$5 000 000
Québec schools	96 263	111 706
Société des jeux mondiaux policiers pompiers – Québec 2005		400 000
Musée national des beaux-arts du Québec		5 000
Other	272 895	43 064
	<u>\$5 369 158</u>	<u>\$5 559 770</u>

6. FINANCIAL EXPENSES

	2007	2006
Interest on the long-term debt	\$1 350 848	\$1 486 580
Amortization of deferred expenses	21 664	22 085
Other interest	3 589	3 196
	<u>\$1 376 101</u>	<u>\$1 511 861</u>

7. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2007	2006
Ville de Québec	\$719 909	
Ministère des Transports *	149 467	
Société des établissements de plein air du Québec *	47 994	
Interest –current transactions	48 123	\$6 740
Interest – Fun to develop and enhance the capital	8 098	6 062
Other	15 970	75 242
	<u>\$989 561</u>	<u>\$88 044</u>

At March 31, 2007, \$197 461 represented accounts receivable from bodies under common control (2006: \$-).

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

8. CONTRIBUTIONS RECEIVABLE

	2007	2006
Ville de Québec	\$385 001	\$983 533
Ministère des Transports *	4 833 750	35 000
Assemblée nationale *		20 000
Société immobilière du Québec *		20 000
Ministère de l'Éducation *		15 000
Other	119 928	78 375
	5 338 679	1 151 908
Contributions payable in the coming fiscal year	(5 313 679)	(1 121 908)
	<u>\$25 000</u>	<u>\$30 000</u>

* At March 31, 2007, \$4 833 750 represented the amount of contributions receivable from bodies under common control (2006: \$90 000).

9. DEPOSIT ON ACQUISITION OF CAPITAL ASSETS

On December 5, 2005, the Commission deposited \$2 089 010 in trust in the seller's name for the acquisition of property. The Commission will become the owner of this property after the seller has decommissioned it, no later than November 30, 2007.

10. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Land	\$11 514 702		\$11 514 702
Parc du Bois-de-Coulonge	1		1
Parc de l'Amérique Française	1		1
Parc du Cavalier du Moulin	1		1
Parc de la Francophonie	1		1
Parc de l'Amérique-Latine *	1		1
Data processing equipment	414 068	\$369 496	44 572
Office furniture and equipment	438 431	284 539	153 892
Leasehold improvements	250 334	121 132	129 202
Automotive equipment	30 546	4 582	25 964
Facilities development	4 876 762	4 408 720	468 042
Current development	32 035 804		32 035 804
	49 560 652	5 188 469	44 372 183
Cultural property			17 909 117
Domaine de Maizerets	6 545 250		6 545 250
Domaine Cataract	238 821		238 821
	6 784 071		6 784 071
	<u>\$56 344 723</u>	<u>\$5 188 469</u>	<u>\$51 156 254</u>
			<u>\$24 693 188</u>

Interest of \$1 269 833 \$ (2006: \$60 421) was capitalized to development in progress.

* During the fiscal year, the Commission acquired a park from the Société immobilière du Québec for a nominal value of \$1.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. BANK BORROWING**

The Commission has an unused bank borrowing of \$500 000 underwritten by the Gouvernement du Québec, renewable on August 31, 2007 and bearing interest at the prime rate. At March 31, 2007, the interest rate was de 6%.

12. SUPPLIERS AND CHARGES PAYABLE

	2007	2006
Suppliers – current operations	\$3 396 295	\$1 889 109
Suppliers – Fund to develop and enhance the capital	65 709	79 672
Salaries and fringe benefits	53 590	21 387
Vacation time payable (Note 20)	213 402	208 664
Sick leave payable (Note 20)	29 082	25 452
Interest payable on long-term debt	1 134 189	434 402
	<u>\$4 892 267</u>	<u>\$2 658 686</u>

At March 31, 2007, \$86 366 represented amounts payable to related parties (2006: \$102 726).

13. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

Deferred Gouvernement du Québec subsidies presented in the current operating fund correspond to subsidies received in the fiscal years under consideration and destined to cover the subsequent fiscal year's expenses. Changes in the deferred subsidies are:

	2007	2006
Opening balance	\$232 380	\$1 307 495
Subsidies received in the fiscal year	<u>1 927 524</u>	<u>701 854</u>
	2 159 904	2 009 349
Subsidies recorded as proceeds of the fiscal year	<u>(1 253 918)</u>	<u>(1 776 969)</u>
Closing balance	<u>\$905 986</u>	<u>\$232 380</u>

14. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the current operating fund correspond to contributions received in the fiscal years under consideration and destined to cover the expenses of future fiscal years. Changes in the deferred contributions are:

	2007	2006
Opening balance	\$1 088 133	\$241 349
Contributions received during the fiscal year	<u>318 633</u>	<u>962 608</u>
	1 406 766	1 203 957
Contributions recorded as proceeds of fiscal year	<u>(1 117 932)</u>	<u>(115 824)</u>
	288 834	1 088 133
Contributions destined to cover expenses for the next fiscal year	<u>(247 452)</u>	<u>(1 032 668)</u>
Closing balance	<u>\$41 382</u>	<u>\$55 465</u>

COMMISSION DE LA CAPITALITÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. DEFERRED CONTRIBUTIONS** (cont'd)

At March 31, 2007, \$100 921 represented deferred contributions from bodies under common control (2006: \$127 094).

15. LONG-TERM DEBT

	Effective rate	2007	2006
Borrowings on note from the Gouvernement du Québec's Financing Fund, guaranteed by the Gouvernement du Québec:			
5.37% repayable in half-yearly instalments of \$171 198 on the principal of the borrowing and a final instalment of \$2 225 779 on December 1, 2010 *	5.51 %	\$3 423 968	\$3 766 365
6.06% repayable in half-yearly instalments of \$345 842 on the principal of the borrowing, maturing on December 1, 2010 *	6.21	2 766 736	3 458 420
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	2 066 667	2 273 333
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	1 680 000	1 764 000
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	3 478 369	3 702 779
4.59%, repayable in half-yearly instalments of \$81 866, maturing on December 1, 2016 *	4.75	1 637 326	1 730 760
5.64%, repayable in half-yearly instalments of \$318 623 on the principal of the borrowing, maturing on January 16, 2018 *	5.78	7 009 711	7 646 957
4.8%, repayable in half-yearly instalments of \$415 827, on the principal of the borrowing, maturing on March 31, 2026 *	4.91	16 217 238	8 400 642
4.6%, repayable in half-yearly instalments of \$641 122, on the principal of the borrowing, maturing on June 1, 2025 *	4.72	23 721 514	
Borrowings guaranteed by the Ministère de la Culture et des Communications			
5.25%, repayable in monthly instalments of \$9 030, principal and interest, renewable on April 5, 2010, maturing on April 5, 2015 *	5.25	712 525	781 501
Borrowing repaid during the fiscal year			10 481
Borrowing from the Société immobilière du Québec :			
4.7 %, repayable in monthly instalments of \$1 386, principal and interest, maturing on March 31, 2012	4.70	74 286	
		62 788 340	33 535 238
Portion maturing in the next fiscal year		(4 966 009)	(4 464 788)
		<u>\$57 822 331</u>	<u>\$29 070 450</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

15. LONG-TERM DEBT (cont'd)

Capital payments for the next five fiscal years are:

2008	\$4 966 009
2009	4 554 731
2010	4 559 522
2011	9 600 422
2012	3 155 761

* 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.

16. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets include Gouvernement du Québec subsidies and partners' contributions and correspond to development in progress. Contributions break down as follows:

	2007	2006
Opening balance	\$5 662 424	\$1 019 571
Subsidy and contributions received during the fiscal year	26 373 380	4 642 853
Closing balance	<u>\$32 035 804</u>	<u>\$5 662 424</u>

17. 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:

	2007	2006
Land	\$11 514 702	\$11 524 770
Cultural property	6 545 251	6 545 251
	<u>\$18 059 953</u>	<u>\$18 070 021</u>

18. INTER-FUND TRANSFER

The amount \$556 156 represents surpluses received by the Commission which, according to its incorporating legislation, must be paid into the Fund to develop and enhance the capital.

19. COMMITMENTS

The Commission is committed to financially supporting various projects aimed at enhancing and promoting the capital and promoting cultural activities and events that give prominence to the capital. At March 31, 2007, the Commission had commitments totalling \$13 824 700 (2006: \$6 988 942).

20. FUTURE FRINGE BENEFITS

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

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES THE TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

20. FUTURE FRINGE BENEFITS (cont'd)

The Commission's liability towards these Government plans is restricted to its employer contributions. Its contributions charged to the year-end statement total \$117 538 (2006: \$91 298).

Provision for vacation time and sick leave

	2007		2006	
	Sick leave	Vacation time	Total	Total
Opening balance	\$25 452	\$208 664	\$234 116	\$216 534
Charge for the fiscal year	37 455	225 040	262 495	233 669
Benefits paid throughout the fiscal year	(33 825)	(220 302)	(254 127)	(216 087)
Closing balance	<u>\$29 082</u>	<u>\$213 402</u>	<u>\$242 484</u>	<u>\$234 116</u>

21. FINANCIAL INSTRUMENTS

The book value of short-term assets and liabilities and cash on hand reserved for the acquisition of capital assets corresponds to a reasonable estimate of their fair value.

The fair value of Gouvernement du Québec subsidies receivable and the long-term debt are determined by capitalizing future cash flows at capitalization rates representing the rates the Commission might incur on the date of the financial statement for borrowings with similar conditions and maturity dates.

The fair market value of contributions receivable and the deposit on the acquisition of capital assets is established by capitalizing future cash flows at a capitalization rate representing the rates the Commission might incur on the date of the financial statement for investments with similar conditions and maturity dates.

The following table shows the book value and fair value of the other financial instruments.

	2007		2006	
	Book value	Fair value	Book value	Fair value
Gouvernement du Québec subsidies receivable	\$63 214 324	\$64 932 734	\$33 986 043	\$35 486 664
Contributions receivable	5 338 679	5 335 783	1 151 908	1 148 333
Deposit on acquisition of capital assets	2 089 010	2 089 010	2 089 010	2 013 504
Long-term debt				
Borrowings from the Financing Fund	62 001 529	63 712 404	32 743 256	34 260 374
Borrowings guaranteed by the Ministère de la Culture et des Communications	712 525	720 060	791 982	778 442
Borrowing from the Société immobilière du Québec	74 286	74 286		

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

22. RELATED PARTY TRANSACTIONS (cont'd)

The Commission did not carry out any business transactions with related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements. Fixed asset purchases and sales between related parties are recorded at the assignor's book value and disclosed in Note 10.

23. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

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

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

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

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

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

Jacques Langlois
President and Chief Executive Officer

Hélène Turcotte
Director, Administrative Affairs

Québec, July 6, 2007

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission de la capitale nationale du Québec as at March 31, 2007, and the statement, statements of operations, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. It is my responsibility to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 6, 2007

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

R.S.Q., c. R-20

GENERAL FUND

STATEMENT OF OPERATIONS AND CHANGE IN EQUITY

for the year ended December 31, 2006

(in thousands of dollars)

	2006	2005
REVENUES		
Levies	58 105	56 535
Service fees	6 675	6 812
Penalties	2 384	1 621
Optional participation	771	739
Transfer of unidentified or unclaimed compensation and claims	181	160
Investment income	2 231	1 239
Other	463	420
	<u>70 810</u>	<u>67 526</u>
EXPENSES		
Employee remuneration and personnel management	70 575	66 095
Administrative expenses	15 348	15 108
Office space	3 332	3 197
Amortization of capital assets	2 452	2 467
Amortization of intangible assets	1 256	947
Advertising and public relations	1 049	682
Contribution to the Construction Industry Commissioner's Fund	930	1 005
Contribution to the Commission des relations de travail	158	
Other expenses	506	173
Interest on capital-lease contract	6	11
	<u>95 612</u>	<u>89 685</u>
Expenses before the following items		
Transfer from supplemental pension and insurance plans	(19 584)	(17 756)
Transfer from the Training Fund and the Training Plan	(1 616)	(1 590)
Transfer of interest from the Holiday and Vacation Pay Fund	(3 765)	(3 478)
Gouvernement du Québec subsidies to help fight black market labour	(6 936)	(10 336)
	<u>63 711</u>	<u>56 525</u>
EXCESS OF REVENUES OVER EXPENSES	7 099	11 001
EQUITY, BEGINNING OF YEAR	<u>17 543</u>	<u>6 542</u>
EQUITY, END OF YEAR	<u><u>24 642</u></u>	<u><u>17 543</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Current assets		
Cash on hand	2 889	
Investment and accrued revenue (Note 4.1)	65 283	54 345
Levies receivable	6 588	5 885
Accounts receivable	2 300	1 532
Prepaid expenses	419	769
	<u>77 479</u>	<u>62 531</u>
Capital assets (Note 5.1)	9 356	10 539
Intangible assets (Note 5.1)	3 884	3 157
Asset for benefits accrued under future fringe benefits (Note 12)	<u>217</u>	
	<u>90 936</u>	<u>76 227</u>
LIABILITIES		
Current liabilities		
Cheques issued but not cashed		181
Accounts payable and accrued liabilities	12 388	10 859
Deferred Gouvernement du Québec subsidies	2 615	2 450
Deferred revenue	267	267
Obligation resulting from a capital-lease contract		244
	<u>15 270</u>	<u>14 001</u>
Liability for benefits accrued under future fringe benefits (Note 12)	<u>51 024</u>	<u>44 683</u>
	66 294	58 684
EQUITY	<u>24 642</u>	<u>17 543</u>
	<u>90 936</u>	<u>76 227</u>
COMMITMENTS (Note 10)		
CONTINGENCIES (Note 11)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND**
STATEMENT OF CASH FLOWS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess of revenue over expenditure	7 099	11 001
Adjustments for:		
Amortization of capital assets	2 452	2 467
Amortization of intangible assets	1 256	947
Loss on sale of capital assets	7	101
Increase in benefits accrued under future fringe benefits	6 124	5 151
	<u>16 938</u>	<u>19 667</u>
Net change in non-cash items of the Working Capital Fund (Note 7.1)	<u>573</u>	<u>(3 196)</u>
Cash flows related to operating activities	<u>17 511</u>	<u>16 471</u>
INVESTMENT ACTIVITIES		
Sale of investments (acquisition)	3 121	(4 448)
Acquisition of capital assets	(1 669)	(2 218)
Acquisition of intangible assets	(1 590)	(2 338)
Proceeds from sale of capital assets	<u>18</u>	<u>18</u>
Cash flows related to investment activities	<u>(138)</u>	<u>(8 986)</u>
FINANCING ACTIVITIES		
Repayment of the obligation resulting from a capital-lease contract	<u>(244)</u>	<u>(239)</u>
Cash flows related to financing activities	<u>(244)</u>	<u>(239)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	17 129	7 246
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23 337</u>	<u>16 091</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7.1)	<u><u>40 466</u></u>	<u><u>23 337</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FUND****STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2006

(in thousands of dollars)

	2006				2005
	General account	Comple- mentary account	Pensioners' account	Total	Total
ASSETS					
Investments					
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4.2)	3 770 865	2 406 518	4 898 544	11 075 927	9 744 528
Investments and accrued interest (Note 4.1)	(16 751)	10 615	79 113	72 977	107 709
	<u>3 754 114</u>	<u>2 417 133</u>	<u>4 977 657</u>	<u>11 148 904</u>	<u>9 852 237</u>
Accounts receivable					
Employee contributions receivable	122	20 578		20 700	19 750
Employer contributions receivable	28 692	11 022		39 714	40 043
General account transfer receivable			18 470		
Complementary account transfer receivable			<u>4 063</u>		
	<u>3 782 928</u>	<u>2 448 733</u>	<u>5 000 190</u>	<u>11 209 318</u>	<u>9 912 030</u>
LIABILITIES					
Cheques issued but not cashed	11 272		1	11 273	477
Accounts payable	596	718		1 314	1 012
Contributions repayable after retirement		24 214		24 214	23 707
Pensions and lump-sum benefits payable	7 880	2 789	2 449	13 118	8 696
Transfers to the pensioners' accounts	<u>18 470</u>	<u>4 063</u>			
	<u>38 218</u>	<u>31 784</u>	<u>2 450</u>	<u>49 919</u>	<u>33 892</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 8)	<u>3 744 710</u>	<u>2 416 949</u>	<u>4 997 740</u>	<u>11 159 399</u>	<u>9 878 138</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

SUPPLEMENTAL PENSION PLAN FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2006

(in thousands of dollars)

	2006				2005
	General account	Comple- mentary account	Pensioners' account	Total	Total
INCREASE IN ASSETS					
Employee contributions (Note 8.3)	1 008	205 882		206 890	216 490
Employer contributions (Note 8.3)	299 399	125 110		424 509	428 257
Contributions after retirement		23 940		23 940	23 614
Earnings of funds entrusted to the Caisse de dépôt et placement du Québec	148 350	89 265	195 060	432 675	374 215
Other interest income	397	602	1 880	2 879	2 449
Transfer from the general account			401 879		
Transfer from the complementary account			86 752		
Change in the fair value of investments	268 481	165 062	344 665	778 208	848 896
	<u>717 635</u>	<u>609 861</u>	<u>1 030 236</u>	<u>1 869 101</u>	<u>1 893 921</u>
DECREASE IN ASSETS					
Lump-sum benefits and contribution refunds	33 507	10 669	486 087	530 263	497 049
Repayment of hours after retirement		25 955		25 955	23 562
Charge of administrative expenses by the General Fund	19 145	192		19 337	17 531
Transfer of unclaimed property at the Minister of Revenue	12 042			12 042	
Transfers to the pensioners' accounts	401 879	86 752			
Administrative expenses	243			243	349
	<u>466 816</u>	<u>123 568</u>	<u>486 087</u>	<u>587 840</u>	<u>538 491</u>
INCREASE IN ASSETS	250 819	486 293	544 149	1 281 261	1 355 430
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>3 493 891</u>	<u>1 930 656</u>	<u>4 453 591</u>	<u>9 878 138</u>	<u>8 522 708</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u>3 744 710</u>	<u>2 416 949</u>	<u>4 997 740</u>	<u>11 159 399</u>	<u>9 878 138</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>Basic insurance plans fund</u>		<u>Supplemental insurance plans fund</u>		<u>Total</u>	
ASSETS						
Investments and accrued revenue (Note 4.1)	468 968	393 813	41 132	36 188	510 100	430 001
Employer contributions receivable	<u>23 093</u>	<u>21 823</u>	<u>1 736</u>	<u>1 917</u>	<u>24 829</u>	<u>23 740</u>
	<u>492 061</u>	<u>415 636</u>	<u>42 868</u>	<u>38 105</u>	<u>534 929</u>	<u>453 741</u>
LIABILITY						
Cheques issued but not cashed	3 187	3 174			3 187	3 174
Accounts payable	5 483	6 621	25	10	5 508	6 631
Liabilities related to derivative financial instruments (Note 13)	<u>1 160</u>	<u>(341)</u>	<u>113</u>	<u>(37)</u>	<u>1 273</u>	<u>(378)</u>
Contributions collected in advance for eventual coverage	119 545	103 266	7 948	6 900	127 493	110 166
Deferred voluntary employee contributions	9 513	8 606			9 513	8 606
Deferred employer contributions	186 664	184 943	9 879	9 859	196 543	194 802
Actuarial liabilities (Note 9)	<u>70 821</u>	<u>66 303</u>	<u>17 965</u>	<u>16 732</u>	<u>70 821</u>	<u>66 303</u>
	396 373	372 572	17 965	16 732	414 338	389 304
EQUITY (Notes 14 and 15)	<u>95 688</u>	<u>43 064</u>	<u>24 903</u>	<u>21 373</u>	<u>120 591</u>	<u>64 437</u>
	492 061	415 636	42 868	38 105	534 929	453 741

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND**
STATEMENT OF CHANGES IN EQUITY
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	Basic insurance plans fund		Supplemental insurance plans fund		Total	
INCREASE IN ASSETS						
Employer contributions	216 296	197 735	11 118	9 768	227 414	207 503
Optional employee contributions	17 175	14 878			17 175	14 878
Premium received from supplemental insurance plans	9 899	9 026				
Investment income	<u>30 396</u>	<u>25 923</u>	<u>2 962</u>	<u>2 955</u>	<u>33 358</u>	<u>28 878</u>
	<u>273 766</u>	<u>247 562</u>	<u>14 080</u>	<u>12 723</u>	<u>277 947</u>	<u>251 259</u>
DECREASE IN ASSETS						
Insurance premiums paid to basic plans			9 899	9 026		
Expenses charged by the General Fund			247	225	247	225
Claims	207 600	192 294			207 600	192 294
Tax on capital	5 058	4 948	254	230	5 312	5 178
Management fees for claims and premiums	2 465	2 772			2 465	2 772
Decline in value of assets linked to derivative financial instruments	1 501	(819)	150	(94)	1 651	(913)
Increase in actuarial liabilities	<u>4 518</u>	<u>1 621</u>			<u>4 518</u>	<u>1 621</u>
	<u>221 142</u>	<u>200 816</u>	<u>10 550</u>	<u>9 387</u>	<u>221 793</u>	<u>201 177</u>
INCREASE IN EQUITY	52 624	46 746	3 530	3 336	56 154	50 082
EQUITY (DEFICIT), BEGINNING OF YEAR	<u>43 064</u>	<u>(3 682)</u>	<u>21 373</u>	<u>18 037</u>	<u>64 437</u>	<u>14 355</u>
EQUITY, END OF YEAR	<u>95 688</u>	<u>43 064</u>	<u>24 903</u>	<u>21 373</u>	<u>120 591</u>	<u>64 437</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS**

REVENUES AND CHANGES IN EQUITY
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Employer contributions	19 476	19 913
Investment income	<u>11 217</u>	<u>11 647</u>
	<u>30 693</u>	<u>31 560</u>
EXPENSES		
Training activities	13 619	12 233
Incentives paid to clients	7 224	6 224
Amortization of reusable training materials	432	329
Contribution to C.G.U.F.F. ¹	2 042	1 546
Transfer to General Fund	1 275	1 259
Decline in value of assets linked to derivative financial instruments	<u>683</u>	<u>(432)</u>
	<u>25 275</u>	<u>21 159</u>
EXCESS OF REVENUES OVER EXPENSES	5 418	10 401
EQUITY, BEGINNING OF YEAR	<u>144 028</u>	<u>133 627</u>
EQUITY, END OF YEAR	<u><u>149 446</u></u>	<u><u>144 028</u></u>

The notes are an integral part of these financial statements.

1 Training fund use management committee

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

TRAINING PLAN FUND – WORK SECTORS

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Investments and accrued revenue (Note 4.1)	146 871	140 045
Employer contributions receivable	1 808	1 835
Prepaid expenses	<u>2 321</u>	<u>2 060</u>
	151 000	143 940
Reusable training materials (Note 5.2)	<u>993</u>	<u>1 197</u>
	<u>151 993</u>	<u>145 137</u>
LIABILITIES		
Current liabilities		
Cheques issued but not cashed	137	126
Accounts payable	42	30
Training activities payable	1 849	1 117
Liabilities related to derivative financial instruments (Note 13)	<u>519</u>	<u>(164)</u>
	2 547	1 109
EQUITY	<u>149 446</u>	<u>144 028</u>
	<u>151 993</u>	<u>145 137</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS**
STATEMENT OF CASH FLOWS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess of revenue over expenditure	5 418	10 401
Adjustments for:		
Amortization of reusable training materials	<u>432</u>	<u>329</u>
	5 850	10 730
Net change in non-cash elements of the Working Capital Fund (Note 7.2)	<u>1 193</u>	<u>(3 213)</u>
Cash flows related to operating activities	<u>7 043</u>	<u>7 517</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(5 588)	(8 199)
Acquisition of reusable training materials	<u>(228)</u>	<u>(136)</u>
Cash flows related to investment activities	<u>(5 816)</u>	<u>(8 335)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1 227	(818)
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR	<u>2 815</u>	<u>3 633</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7.2)	<u><u>4 042</u></u>	<u><u>2 815</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR**
STATEMENT OF OPERATIONS AND CHANGES IN EQUITY
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Employer contributions	5 287	5 256
Investment income	<u>2 039</u>	<u>2 084</u>
	<u>7 326</u>	<u>7 340</u>
EXPENSES		
Training activities	2 741	2 240
Incentives paid to clients	1 816	1 664
Incentives paid to referred clients	34	174
Amortization of reusable training materials	9	40
Contribution to the Training Plan committee	331	264
Decline in value of assets linked to derivative financial instruments	119	(77)
Transfers to General Fund	<u>341</u>	<u>331</u>
	<u>5 391</u>	<u>4 636</u>
EXCESS OF REVENUES OVER EXPENSES	1 935	2 704
EQUITY, BEGINNING OF YEAR	<u>25 960</u>	<u>23 256</u>
EQUITY, END OF YEAR	<u>27 895</u>	<u>25 960</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

TRAINING PLAN FUND - RESIDENTIAL SECTOR

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Investments and accrued revenue (Note 4.1)	27 118	25 174
Employer contributions receivable	453	346
Prepaid expenses	<u>786</u>	<u>774</u>
	28 357	26 294
Reusable training materials (Note 5.2)	<u>82</u>	<u>15</u>
	<u>28 439</u>	<u>26 309</u>
LIABILITIES		
Current liabilities		
Accounts payable	9	6
Training activities payable	446	373
Liabilities related to derivative financial instruments (Note 13)	<u>89</u>	<u>(30)</u>
	544	349
EQUITY	<u>27 895</u>	<u>25 960</u>
	<u>28 439</u>	<u>26 309</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR**
STATEMENT OF CASH FLOWS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	1 935	2 704
Adjustments for:		
Amortization of reusable training materials	<u>9</u>	<u>40</u>
	1 944	2 744
Net change in non-cash elements of the Working Capital Fund (Note 7.3)	<u>76</u>	<u>(523)</u>
Cash flows related to operating activities	<u>2 020</u>	<u>2 221</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(1 704)	(2 301)
Acquisition of reusable training materials	<u>(76)</u>	<u>(26)</u>
Cash flows related to investment activities	<u>(1 780)</u>	<u>(2 327)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	240	<u>(106)</u>
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR	<u>531</u>	<u>637</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7.3)	<u><u>771</u></u>	<u><u>531</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	195 215	192 202
Vacation pay receivable	<u>34 961</u>	<u>33 037</u>
	<u>230 176</u>	<u>225 239</u>
LIABILITIES		
Cheques issued but not cashed	2 981	2 382
Accounts payable	1 100	818
Liabilities related to derivative financial instruments (Note 13)	<u>122</u>	<u>(69)</u>
Vacation pay, payable to employees	220 654	217 722
Investment income on employee compensation payable	<u>5 319</u>	<u>4 386</u>
	<u>230 176</u>	<u>225 239</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND**
STATEMENT OF CHANGE IN ASSETS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Compensation collected for annual vacation time	395 600	384 660
Investment income	11 201	10 051
Increase in cheques issued but not cashed and accounts payable	<u>881</u>	<u>1 019</u>
	<u>407 682</u>	<u>395 730</u>
DECREASE IN ASSETS		
Payments to employees		
Compensation for annual vacation time	392 557	368 766
Investment income on compensation	6 304	6 336
Transfer to General Fund		
Interest income	3 765	3 478
Unidentified or unclaimed compensation for annual vacation time	119	88
Decline in value linked to derivative financial instruments	<u></u>	<u>(121)</u>
	<u>402 745</u>	<u>378 547</u>
INCREASE IN ASSETS	4 937	17 183
ASSETS, BEGINNING OF YEAR	<u>225 239</u>	<u>208 056</u>
ASSETS, END OF YEAR	<u>230 176</u>	<u>225 239</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	1 232	1 033
Claims from employers receivable	<u>2 196</u>	<u>1 365</u>
	<u>3 428</u>	<u>2 398</u>
 LIABILITIES		
Cheques issued but not cashed	391	274
Accounts payable	31	34
Claims payable to employees	<u>3 006</u>	<u>2 090</u>
	<u>3 428</u>	<u>2 398</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND**

STATEMENT OF CHANGE IN ASSETS
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Claims collected from employers	4 406	2 896
Investment income	45	27
Increase in cheques issued but not cashed and accounts payable	<u>114</u>	<u>(84)</u>
	<u>4 565</u>	<u>2 839</u>
DECREASE IN ASSETS		
Claims paid to employees	3 473	2 598
Transfer to General Fund – Unidentified employee claims	<u>62</u>	<u>72</u>
	<u>3 535</u>	<u>2 670</u>
INCREASE IN ASSETS	1 030	169
ASSETS, BEGINNING OF YEAR	<u>2 398</u>	<u>2 229</u>
ASSETS, END OF YEAR	<u><u>3 428</u></u>	<u><u>2 398</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**EMPLOYER CONTRIBUTIONS FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	1 031	1 403
Employer contributions receivable	517	523
Advances on contributions	<u>130</u>	<u>130</u>
	<u>1 678</u>	<u>2 056</u>
LIABILITIES		
Accounts payable	10	7
Employer contributions refundable	<u>1 668</u>	<u>2 049</u>
	<u>1 678</u>	<u>2 056</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

STATEMENT OF CHANGE IN ASSETS

for the year ended December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Employer contributions	10 065	9 948
Investment income	30	20
Increase in accounts receivable	<u>3</u>	<u>3</u>
	10 098	9 971
DECREASE IN ASSETS		
Contribution refunds	10 446	9 371
Transfer to General Fund – investment income	<u>30</u>	<u>20</u>
	<u>10 476</u>	<u>9 391</u>
(DECREASE) INCREASE IN ASSETS	(378)	580
ASSETS, BEGINNING OF YEAR	<u>2 056</u>	<u>1 476</u>
ASSETS, END OF YEAR	<u>1 678</u>	<u>2 056</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

UNION ASSESSMENT FUND

STATEMENT OF ASSETS AND LIABILITIES

as at December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	4 147	5 223
Employee contributions receivable	5 125	4 868
Advances on contributions	<u>1 632</u>	<u>1 617</u>
	<u>10 904</u>	<u>11 708</u>
LIABILITIES		
Cheques issued but not cashed	159	85
Accounts payable	114	79
Assessments to be remitted	<u>10 631</u>	<u>11 544</u>
	<u>10 904</u>	<u>11 708</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**UNION ASSESSMENT FUND**
STATEMENT OF CHANGE IN ASSETS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Assessments collected	57 051	56 816
Increase in cheques issued but not cashed and accounts payable	109	
Increase in advances on contributions	15	18
Investment income	<u>145</u>	<u>112</u>
	<u>57 320</u>	<u>56 946</u>
DECREASE IN ASSETS		
Assessments remitted	57 979	54 339
Decrease in cheques issued but not cashed and accounts payable		939
Transfer to General Fund – investment income	<u>145</u>	<u>112</u>
	<u>58 124</u>	<u>55 390</u>
(DECREASE) INCREASE IN ASSETS	(804)	1 556
ASSETS, BEGINNING OF YEAR	<u>11 708</u>	<u>10 152</u>
ASSETS, END OF YEAR	<u>10 904</u>	<u>11 708</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, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	99	83
Employer contributions receivable	<u>123</u>	<u>136</u>
	<u>222</u>	<u>219</u>
LIABILITY		
Employer contributions payable	<u>222</u>	<u>219</u>
	<u>222</u>	<u>219</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

STATEMENT OF CHANGE IN ASSETS
 for the year ended December 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN ASSETS		
Employer contributions	912	921
Investment income	<u>4</u>	<u>3</u>
	<u>916</u>	<u>924</u>
DECREASE IN ASSETS		
Payment of contributions	<u>913</u>	<u>910</u>
	<u>913</u>	<u>910</u>
INCREASE IN ASSETS	3	14
ASSETS, BEGINNING OF YEAR	<u>219</u>	<u>205</u>
ASSETS, END OF YEAR	<u>222</u>	<u>219</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**FONDS DE COTISATIONS À LA CAISSE D'ÉDUCATION SYNDICALE****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2006

(in thousands of dollars)

	2006	2005
ASSETS		
Investments and accrued revenue (Note 4.1)	72	56
Employee contributions receivable	257	294
	<u>329</u>	<u>350</u>
LIABILITIES		
Employees contributions payable	329	350
	<u>329</u>	<u>350</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Robert Brown, Director

STATEMENT OF CHANGE IN ASSETS

for the year ended December 31, 2006

(in thousands of dollars)

	2006	2005
INCREASE IN ASSETS		
Employee contributions	1 841	1 365
Investment income	4	
	<u>1 845</u>	<u>1 365</u>
DECREASE IN ASSETS		
Contribution remittances	1 862	1 015
Transfer to General Fund – investment income	4	
	<u>1 866</u>	<u>1 015</u>
(DECREASE) INCREASE IN ASSETS	(21)	350
ASSETS, BEGINNING OF YEAR	<u>350</u>	
ASSETS, END OF YEAR	<u>329</u>	<u>350</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	6 307	5 814
Employer contributions receivable	323	302
Recovery of compensation receivable	<u>1 370</u>	<u>1 550</u>
	<u>8 000</u>	<u>7 666</u>
LIABILITIES		
Cheques issued but not cashed	12	20
Accounts payable	5	(35)
Compensation payable to employees	<u>2 186</u>	<u>1 507</u>
	<u>2 203</u>	<u>1 492</u>
EQUITY		
	<u>5 797</u>	<u>6 174</u>
	<u>8 000</u>	<u>7 666</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND****STATEMENT OF CHANGE IN EQUITY**
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN EQUITY		
Employer contributions	2 294	2 341
Compensation recovered	251	1 185
Penalties	193	159
Investment income	<u>214</u>	<u>153</u>
	<u>2 952</u>	<u>3 838</u>
DECREASE IN EQUITY		
Compensation paid to employees	3 115	2 983
Transfer to General Fund – investment income	<u>214</u>	<u>153</u>
	<u>3 329</u>	<u>3 136</u>
(DECREASE) INCREASE IN EQUITY	(377)	702
EQUITY, BEGINNING OF YEAR	<u>6 174</u>	<u>5 472</u>
EQUITY, END OF YEAR	<u>5 797</u>	<u>6 174</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Investments and accrued revenue (Note 4.1)	3 606	3 188
Employer contributions receivable	<u>57</u>	<u>84</u>
	<u>3 663</u>	<u>3 272</u>
LIABILITIES		
Employee compensation payable	<u>9</u>	<u>16</u>
	9	16
EQUITY (Note 16)	<u>3 654</u>	<u>3 256</u>
	<u><u>3 663</u></u>	<u><u>3 272</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Robert Brown, Director

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
DECREASE IN EQUITY		
Employer contributions	520	525
Investment income	<u>114</u>	<u>72</u>
	634	597
DECREASE IN EQUITY		
Assessments remitted to employees	<u>236</u>	<u>244</u>
	<u>236</u>	<u>244</u>
INCREASE IN EQUITY	398	353
EQUITY, BEGINNING OF YEAR	<u>3 256</u>	<u>2 903</u>
EQUITY, END OF YEAR	<u><u>3 654</u></u>	<u><u>3 256</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2006

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Commission de la construction du Québec (CCQ) was established by the Act respecting labour relations, vocational training and manpower management in the construction industry (R.S.Q., c. R-20) to apply collective agreements and fringe-benefit plans and managing vocational training and manpower in the construction industry. To do so, the CCQ administers eleven funds, a supplementary pension plan and insurance plans.

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

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS

2.1 General Fund

The General Fund was established to report on the CCQ's operations related to the application of the collective agreements concluded under the Act respecting labour relations, vocational training and manpower management in the construction industry. This includes the administration of any complementary social benefits plan and other functions conferred on the Commission by the Act.

2.2 Supplemental pension plan

The following description of the supplemental pension plan for employees of the Québec construction industry (plan) is given for information purposes. For more complete information concerning this plan, please consult the Regulation respecting complementary social benefits plans in the construction industry (R-20, r.14.01) published in the Gazette officielle du Québec.

GENERAL INFORMATION

This is an inter-enterprise pension plan developed by the Committee for social benefits in the construction industry and, since January 1, 1976, replaces plans that were previously in effect. 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 a general formula applicable to all participants. It had a defined-benefit structure and provided for the accumulation of pension credits based on adjusted hours worked. Since December 26, 2004, the general account is supplied only by employer contributions for past service. These contributions for past service are paid to amortize the plan's actuarial deficit.

The general account covers expenses incurred by the General Fund for administration of the supplemental pension plan, basic insurance plans and other administrative expenses in the pensioners' account.

The complementary account has a defined-contribution structure and the pension payable equals the amount of the pension constituted by the value accumulated in the participant's account at the date of retirement. Until December 25, 2004, the complementary account received contributions paid by participants according to specific formulas for each trade or occupation. Since December 26, 2004, it receives employer contributions for current service, those that participants paid under the general formula applicable to all participants and those paid by participants according to specific formulas for each trade or occupation.

The general and complementary accounts provide for the payment of death and severance benefits for non-retired contributors. When a contributor retires, a portion of assets from the general and complementary accounts is transferred to the pensioners' account to provide for the lifetime annuity payable to the pensioner or the pensioner's spouse.

The pensioners' account is augmented by revenues generated by its own assets.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)

2.2 Supplemental pension plan (cont'd)

FUNDING

Within the meaning of the Supplemental Pension Plans Act (R.S.Q., c. R-15.1), there is no plan promoter since the Plan was created by the Regulation respecting complementary social benefit plans in the construction industry (R-20, r. 14.01). This Regulation is designed to enact clauses of construction industry collective agreements, which the Commission is responsible for enforcing.

In keeping with section 118 of this Regulation, no later than three years after the last evaluation, the CCQ has the supplemental pension plan evaluated for Québec construction industry employees by an independent actuary. The evaluation comes into effect on December 31 each year. The actuarial opinion is valid for the three years following the evaluation's effective date. The approach advocated to offset the effects of fluctuating asset yields and adjustments in economic and demographic assumptions is the use of a reserve for economic fluctuations for the general account and a reserve for indexations futures for the pensioners' accounts.

The objectives of the actuarial evaluation are: to recommend, if applicable, an adjustment in the employer contribution between the employer contribution for past service and that for current service and recommend, if applicable, an adjustment, to basic pensions accumulated and pensions being paid on the evaluation's effective date. This evaluation is based on assumptions determined by actuaries outside the CCQ (see Notes 8.1 and 8.2).

RETIREMENT BENEFITS

Contributors are entitled to benefits without any actuarial reduction at the age of 65, at the age of 60 if the sum of their age and hours worked divided by 1400 is equal to or greater than 70, or at the age of 55 if the sum of their age and hours worked divided by 1400 is equal to or greater than 80 and the sum of their age and years of service is equal to or greater than 80.

In the case of contributors who are 55 years of age and the sum of their age and hours worked divided by 1400 is equal to or greater than 80 but the sum of their age and years of service is less than 80, only the portion of the pension payable for hours worked after 1991 is reduced by 1/4% per month for the months between the month closest to that where the sum of their age and years of service is 80 if they continued to accumulate years of service and the month they turn 60.

Contributors are entitled to an early retirement pension with actuarial reduction at the age of 55, or at the age of 50 if the sum of their age and hours worked divided by 1400 is equal to or greater than 60.

Contributors who retire before the age of 65 may choose to receive an enriched annuity in order to subsequently receive a reduced pension at the age of 65.

Pensions are subject to adjustments determined by the Commission following an actuarial valuation of the supplemental pension plan.

DISABILITY PENSION

If a contributor who is at least 50 years of age and has accumulated 21 000 hours of work becomes totally disabled, he/she is entitled to receive a disability pension beginning the 53rd week following the date on which disability began. Where applicable, the amount of the pension payable under the general account, for service prior to December 26, 2004, is reduced by 1/4% per month between the date of retirement and the closest date to when the contributor would have been eligible for a pension without any actuarial reduction. The pension payable under the complementary account equals the pension consisting of the accumulated value of the participant's account at the date of retirement. The total disability pension remains payable even if the disability ceases.

DEATH BENEFITS

If an unretired participant dies, the eligible surviving spouse receives a lump sum benefit equal to the actuarial value of the pension constituted by the participant.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)

2.2 Supplemental pension plan (cont'd)

DEATH BENEFITS (cont'd)

When a retiree dies before having received 60 monthly instalments, the spouse receives a pension equal to 100% of the pension the retiree received until a total of 60 monthly instalments have been paid to the retiree and the spouse. After this time, the pension payable to the spouse is reduced to 60% of the pension received by the retiree (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

When a retiree dies after having received 60 monthly instalments, the spouse receives a pension equal to 60% of the pension the retiree received (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

If a retiree dies without a spouse and before having received 60 monthly instalments, the designated beneficiary receives a lump-sum benefit equal to the actuarial value of the balance of the 60 monthly instalments guaranteed at the time of retirement.

Since December 26, 2004, a participant can choose to have the pension replaced by a ten-year guaranteed-payment pension. In this case, 60 instalments must be replaced by 120 instalments in all occurrences.

SEVERANCE BENEFITS

A participant with no work time to his credit over 24 consecutive months is entitled to a deferred pension equal to the general account basic pension and the pension related to his complementary account. However, as long as the participant is not eligible for a normal or early retirement pension, he can request that the actuarial value of his deferred pension be transferred into another authorized retirement-savings vehicle.

CONTRIBUTIONS AFTER RETIREMENT

Until December 25, 2004, contributions received for a participant receiving a retirement pension or past normal retirement age are repaid to him the following year. Since December 26, 2004, employer contributions for past service paid into the general account are no longer repaid.

SUPPLEMENTAL PENSION PLANS ACT

The Act to amend the Supplemental Pension Plans Act (2000, c. 41), which came into effect on January 1, 2001, amended the Supplemental Pension Plans Act (R.S.Q., c. R15.1). The Plan is governed by this statute. The CCQ has entered into talks with the Régie des rentes du Québec regarding the statute's application to this plan, since the implementation of several of its provisions would cause excessive problems, given the specific characteristics of the pension plan. These discussions led to the publication, on May 12, 2004, of O.C. 415-2004 which removes the Plan from certain provisions of the statute or postpones its implementation. However, certain elements regarding plan financing and solvability continue to be discussed.

The actuarial evaluation prepared for the Plan at December 31, 2006 reflects the amendments required in 2004 and 2005 by O.C. 415-2004.

2.3 Insurance plans

A group contingency fund is created to receive employer contributions and voluntary employee contributions, to pay benefits and compensation provided for under insurance plans and to pay inherent expenses.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)**2.3 Insurance plans (cont'd)**

Supplemental group insurance funds were established to collect the additional contributions for employees who ply a specific trade or group of trades and to provide for the payment of premiums and expenses related to the supplemental insurance plan. Supplemental plans for the trades and occupations electrician, roofer, tinsmith, pipefitters, lineworkers, fire protection mechanics, refrigeration mechanics, worksite mechanics and the trowel trades (bricklayers, cement finishers, plasterers and tile setters) have been cumulated for the presentation of the financial statements.

Since 1998, the collective contingency fund for basic insurance plans pays for the additional coverage provided for in the supplemental plan, in exchange for payment of an insurance premium for each person insured under a supplemental plan. This premium is established at the beginning of the year following the coverage period.

2.4 Trust funds**TRAINING PLAN FUND – WORK SECTORS**

This fund was established to record employer contributions for funding construction industry worker training, in keeping with the industry's collective agreements, i.e. those of the institutional, commercial, industrial, civil engineering and public works sectors.

TRAINING PLAN FUND – RESIDENTIAL SECTOR

This fund records the employer contributions used to finance the training plan fund for the residential sector, in accordance with the collective agreements for employees of the construction industry.

HOLIDAY AND VACATION PAY FUND

This fund reports on holiday and vacation pay and interest earned on behalf of employees of the construction industry in accordance with the applicable collective agreements.

BACK PAY FUND

This fund reports on salary claims made by the CCQ on behalf of construction industry employees under section 81 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

EMPLOYER CONTRIBUTIONS FUND

This fund reports on employer contributions on behalf of the employers' association under section 40 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

UNION ASSESSMENT FUND

This fund reports on the union assessment deducted from the salaries of employees of the construction industry for union associations under section 38 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

RESIDENTIAL SECTOR CONTRIBUTIONS FUND

This fund has been set up to report on employer contributions designed to allow employers and unions bring on-line, harmoniously implement and disseminate applicable work conditions, gauge their relevance and effectiveness and undertake any other approach or analysis to promote closer, more concerted relations between the parties in accordance with the collective agreement governing the residential sector of the construction industry.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)

2.4 Trust funds (cont'd)

UNION TRAINING CONTRIBUTION FUND

This fund was set up to report on employee contributions in order to allow union associations to offer training services to develop skills in all aspects related to labour relations, in keeping with the collective agreements of the institutional, commercial, industrial, civil engineering and public works sectors.

SPECIAL COMPENSATION FUND

This fund reports on employer contributions used to compensate construction industry employees for the loss of wages and fringe benefits as a result of employer insolvency or when called for jury duty, in accordance with the collective agreements for employees of the construction industry.

ELIGIBILITY FUND

This fund reports on employer contributions used to compensate employees for the costs incurred to renew their competency certificate issued by the Canadian Welding Bureau, in accordance with the collective agreements for employees of the construction industry. The eligibility funds for mechanics, locksmiths, erectors, linemen, reinforcing steel erectors, electricians, tinsmiths, boilermakers, pipefitters and pipe welders have been cumulated for the purpose of financial statement presentation.

3. SUMMARY OF MAIN ACCOUNTING POLICIES

3.1 Consolidation principles

The financial statements of the supplemental pension and insurance plans and trust fund are not consolidated in the financial statements of the General Fund since, by virtue of legislation, regulations and collective agreements, the funds and plans constitute separate legal and accounting trusts.

3.2 Use of estimates

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

3.3 Revenue and transfer reporting

GENERAL FUND

Deduction revenues

Deduction revenues are recorded in the fiscal year corresponding to the hours worked.

Transfer of unidentified or unclaimed compensation and claims

Regulations stipulate that claims for wages kept in trust and payable to unidentified employees over the past three years at December 31 of a given year and compensation for unclaimed or unidentified vacation time kept in trust over the past three years at January of a given year are transferred to General Fund revenues for administration.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.3 Revenue and transfer reporting (cont'd)

GENERAL FUND (cont'd)

Investment income

Regulations stipulate that investment income generated by the Employer Contributions Fund, the Union Assessment Fund, the Union Training Contribution Fund and the Special Compensation Fund are transferred to revenues in the General Fund for administration.

Transfer from supplemental pension and insurance funds, the Training Plan Fund – Work Sectors and the Training Plan Fund – Residential Sector

Regulations stipulate that transfers from supplemental pension and insurance funds, the Training Plan Fund – Work Sectors and the Training Plan Fund – Residential Sector are set annually by the CCQ. The amount required to cover the administrative expenses of these funds is determined using a formula that is established and approved by the Board of Directors.

Transfer of interest from the Holiday and Vacation Pay Fund

Regulations stipulate that interest from the Holiday and Vacation Pay Fund be transferred to the General Fund to pay the Fund's administrative expenses and collection fees of up to 25% of the interest generated by the Fund plus a lump sum of \$965 000.

INSURANCE PLANS

Employer contributions and voluntary employee contributions

Revenues from employer contributions and voluntary employee contributions are recorded in the fiscal year corresponding to the periods those insured were covered.

Prepaid contributions for eventual coverage

Prepaid contributions for eventual coverage comprise employer contributions designed to maintain employees' insurability. They are deferred and transferred to revenues for the fiscal year corresponding to the insurance periods for which they are used.

TRUST FUNDS

Employer and employee contributions are recorded in the fiscal year corresponding to the hours worked.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, overdrafts and highly liquid investments, which mature within three months or less of their acquisition date.

3.5 Investments

GENERAL FUND, INSURANCE PLANS AND TRUST FUNDS

Investments are recorded at cost, except for bonds, which are recorded at amortized cost.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.5 Investments (cont'd)

GENERAL FUND, INSURANCE PLANS AND TRUST FUNDS (cont'd)

Investments acquired in foreign currency are converted at the exchange rate in effect on the acquisition date. Investment income is converted at the exchange rate in effect the date of operations.

For the purposes of the presentation of Note 4.1, the fair value of the investments held in foreign currency is converted into Canadian dollars at the exchange rate in effect at fiscal year-end.

SUPPLEMENTAL PENSION PLANS

Investments are recorded at fair value, determined by the Caisse de dépôt et placement du Québec.

3.6 Derivative financial instruments

In keeping with the policy for investing managed funds for the General Fund, Insurance Plans and Trust Funds, the CCQ uses derivative financial instruments, comprising foreign exchange forward contracts, to manage the exchange risk of investments held in foreign currencies. The CCQ does not use these investment vehicles for negotiation or speculation purposes.

Financial instruments are recorded at fair value. According to this method, unrealized gains or losses are posted to results and the counterpart is presented in the balance sheet.

3.7 Long-term assets

GENERAL FUND

Capital assets

Capital assets are recorded at cost. The cost of a good leased under a capital lease contract represents the actualized value of minimum payments required under the lease.

Amortization is calculated using the straight-line method based on duration of use:

Buildings	40 years
Building fit-up	5 years
Office furniture and equipment	10 years
Data processing equipment	5 years
Leasehold improvements	4 years

Intangible assets

Intangible assets correspond to the cost of software and computer development projects under way and are amortized using the straight-line method, which is based on a three-year duration of use. Amortization of computer development projects begins when the projects are completed.

TRAINING PLAN FUND – WORK SECTORS AND TRAINING PLAN FUND – RESIDENTIAL SECTOR

Reusable training materials

Reusable training materials correspond to assets purchased in the context of training activities. They are amortized using the straight-line method, based on the duration of use envisaged in agreements between the CCQ and school boards. The duration of the agreement is three, five or ten years.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)**3.8 Deferred revenue**

GENERAL FUND

Deferred revenue corresponds to incentives granted the CCQ by lessors for office rental. The incentives are amortized using the straight-line method based on the five-year estimated duration of leases. Amortization is posted to results to reduce office rental costs.

3.9 Future fringe benefits

GENERAL FUND

Defined-benefit plans and supplemental pension benefits offered to CCQ employees are recorded as follows:

- Plan assets are measured at fair value.
- The CCQ uses an evaluation based on assets' market value, which reflects the effect of investment gains or losses over a three-year period as of the fiscal year in which they are produced for the purpose of measuring retirement costs.
- Net actuarial gains and losses, based on the market value of plan assets, 10% higher than the higher of the obligation for constituted benefits and the value based on the market value of plan assets, and the cost of past services are posted to results over the estimated medium term of the remainder of the participant's working career.
- The cost of retirement benefits and employees' supplemental pension benefits is established using actuarial calculations and the benefit distribution method on a prorated basis of the years of service and management's best estimates of the anticipated yield of plan investments, wage growth, employees' retirement age, plan participant mortality and health-care costs.
- The cost of retirement benefits and employees' supplemental retirement benefits is posted to results as the services are rendered by the employees.
- The measuring date used by the CCQ is December 31.

3.10 Compensation paid to employees

SPECIAL COMPENSATION FUND

Compensation paid to employees is recorded when it is known and proven that the employer is insolvent.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

4. INVESTMENTS

4.1 Investments and accrued revenue

GENERAL FUND, INSURANCE PLANS
AND TRUST FUNDS – AT COST

	2006		2005	
	Cost	Fair value	Cost	Fair value
Cash on hand	51 275	51 275	35 580	35 580
Term deposit ¹	253 298	253 299	226 975	226 975
Bonds ²	333 546	340 941	348 367	358 303
Shares ³	261 948	307 016	246 101	277 361
Real estate	56 033	69 828		
Broker's account ⁴	(129)	(129)	(2 680)	(2 680)
Accrued interest	5 110	5 110	4 224	4 224
	<u>961 081</u>	<u>1 027 340</u>	<u>858 567</u>	<u>899 763</u>

1 Maturing no later than December 1, 2007 at interest rates varying from 2.75% to 6.06%.

2 Different maturity dates up to 2044 at rates varying from 2.11% to 11.50%.

3 Includes the cost and fair value of US shares--\$98 760 613 and \$105 605 100 respectively--for fiscal 2006. This capital gain is attributable to the fluctuation of the US dollar vis-à-vis the Canadian dollar between the date the investments were acquired and the date the financial statements closed.

4 Corresponds to transactions awaiting settlement.

Accrued investments and revenues break down as follows in the different funds:

	2006		2005	
	Cost	Fair value	Cost	Fair value
General Fund	65 283	65 283	54 345	54 345
Basic insurance plans	468 968	507 523	393 813	416 929
Supplemental insurance plans	41 132	44 881	36 188	38 702
Training Plan Fund – Work Sectors	146 871	163 224	140 045	149 062
Training Plan Fund – Residential Sector	27 118	29 922	25 174	26 799
Holiday and Vacation Pay Fund	195 215	200 013	192 202	197 125
Back Pay Fund	1 232	1 232	1 033	1 033
Employer Contributions Fund	1 031	1 031	1 403	1 403
Union Assessment Fund	4 147	4 147	5 223	5 223
Residential Sector Contributions Fund	99	99	83	83
Union Training Contribution Fund	72	72	56	56
Special Compensation Fund	6 307	6 307	5 814	5 815
Eligibility Fund	3 606	3 606	3 188	3 188
	<u>961 081</u>	<u>1 027 340</u>	<u>858 567</u>	<u>899 763</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

4. INVESTMENTS (cont'd)**4.1 Investments and accrued revenue (cont'd)**

SUPPLEMENTAL PENSION PLAN – AT FAIR VALUE

	2006		2005	
	Cost	Fair value	Cost	Fair value
Cash on hand	12 172	12 172	12 796	12 796
Term deposit ¹	59 287	59 287	86 337	86 337
Bonds ²	1 115	1 115	8 221	8 236
Accrued interest	403	403	340	340
	<u>72 977</u>	<u>72 977</u>	<u>107 694</u>	<u>107 709</u>

1 Maturing no later than December 1, 2007 at interest rate varying from 2.75% to 6.06%.

2 Different maturity dates up to 2044 at rates varying from 2.11% to 11.50%.

These accrued investments and interest break down as follows in the different accounts:

	2006		2005	
	Cost	Fair value	Cost	Fair value
General account	(16 751)	(16 751)	42 043	42 049
Complementary account	10 615	10 615	(10 040)	(10 042)
Pensioners' account	79 113	79 113	75 691	75 702
	<u>72 977</u>	<u>72 977</u>	<u>107 694</u>	<u>107 709</u>

4.2 Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value

Supplemental pension plan funds entrusted to the Caisse de dépôt et placement du Québec (CDPQ) break down as:

	2006	2005
General account		
Advances	(11 003)	
Participation deposits ¹	3 761 228	3 426 540
Accrued revenue	20 640	16 991
	<u>3 770 865</u>	<u>3 443 531</u>
Complementary account		
Demand deposit	25 009	70 013
Participation deposits ¹	2 369 502	1 859 673
Accrued revenue	12 007	11 006
	<u>2 406 518</u>	<u>1 940 692</u>
Amounts carried forward	<u>6 177 383</u>	<u>5 384 223</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

4. INVESTMENTS (cont'd)**4.2 Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value (cont'd)**

	2006	2005
Amounts brought forward	6 177 383	5 384 223
Pensioners' account		
Demand deposit (advances)	11 004	(5 001)
Participation deposits ¹	4 860 112	4 337 569
Accrued revenue	27 428	27 737
	4 898 544	4 360 305
	11 075 927	9 744 528

1 The participation deposits held for each supplemental pension plans account are expressed in units. These units are refundable at the fair value of the net equity of the fund at months' end on advance notice of CDPQ terms and conditions. At months' end, the CDPQ assigns each account revenues minus management fees.

5. LONG-TERM ASSETS**5.1 General Fund***Capital assets*

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Land	672		672	672
Buildings	8 718	6 123	2 595	2 812
Building fit-up	2 841	1 846	995	1 307
Furniture and equipment	6 502	4 693	1 809	1 893
Data processing equipment	8 052	5 173	2 879	2 979
Leasehold improvements	1 614	1 208	406	436
	28 399	19 043	9 356	10 099
Computer equipment leased under a capital-lease contract				440
	28 399	19 043	9 356	10 539

Intangible assets

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Software	7 809	5 155	2 654	2 321
Computer systems development projects	1 230		1 230	836
	9 039	5 155	3 884	3 157

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

5. LONG-TERM ASSETS (cont'd)

5.2 Training Plan Fund – Work Sectors
and Training Plan Fund – Residential Sector

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Reusable training materials				
Training Fund	2 502	1 509	993	1 197
Training Plan	194	112	82	15

6. BANK BORROWING

The CCQ has a credit line with financial institutions that is renewable annually on July 1. At December 31, 2006, the maximum amount the CCQ could use was \$7 000 000. Amounts used bear interest at the prime rate. Moreover, in a bank overdraft related to one or more trust funds, substantial advances may be offered by the financial institution for a period not normally exceeding a few days and bearing interest at the prime rate.

7. CASH FLOWS

7.1 General Fund

	2006	2005
Change on non-cash items of the Working Capital Fund		
Withdrawals receivable	(703)	(794)
Accounts receivable	(768)	1 036
Subsidy receivable from the Gouvernement du Québec		3 550
Prepaid expenses	350	(285)
Accounts payable and accrued liabilities	1 529	(1 586)
Deferred income		(87)
Deferred Gouvernement du Québec subsidy	165	(5 030)
	<u>573</u>	<u>(3 196)</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:

	2006	2005
Cash on hand	2 889	
Cheques issued but not cashed		(181)
Investments and accrued revenue ¹	37 577	23 518
	<u>40 466</u>	<u>23 337</u>

¹ Maturing within three months.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

7. CASH FLOWS (cont'd)

7.2 Training Plan Fund – Work Sectors

	2006	2005
Change on non-cash items of the Working Capital Fund		
Employer contributions receivable	27	(255)
Prepaid expenses	(261)	(668)
Accounts payable	12	14
Training activities payable	732	(1 872)
Liabilities related to derivative financial instruments	683	(432)
	<u>1 193</u>	<u>(3 213)</u>

The cash and cash equivalents shown in the cash flow statement for the Training Plan Fund – Work Sectors include the following amounts recorded in the balance sheet:

	2006	2005
Cheques issued but not cashed	(137)	(126)
Investment and accrued revenue ¹	4 179	2 941
	<u>4 042</u>	<u>2 815</u>

1 Maturing within three months.

7.3 Training Plan Fund – Residential Sector

	2006	2005
Change on non-cash items of the Working Capital Fund		
Employer contributions receivable	(107)	(16)
Prepaid expenses	(12)	(774)
Accounts payable	3	3
Training activities payable	73	341
Liabilities related to derivative financial instruments	119	(77)
	<u>76</u>	<u>(523)</u>

The cash and cash equivalents shown in the cash flow statement for the Training Plan Fund – Residential Sector include the following amounts recorded in the balance sheet:

	2006	2005
Investment and accrued revenue ¹	771	531
	<u>771</u>	<u>531</u>

1 Maturing within three months.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

8. OBLIGATIONS RELATED TO BENEFITS**8.1 Obligations of the Supplemental Pension Plan**

The actuaries Groupe-conseil Aon established the actuarial value of the accumulated benefits of the general and pensioners' accounts using year-end closing information as at January 1, 2006. This value was adjusted by projection to December 31, 2006. The actuarial value was determined using the accumulated benefit method and the most probable assumptions, including appropriate margins for unfavourable variances. According to this method, the commitment corresponds to the actuarial value, on the date of evaluation, of the pension claims and other benefits payable based on the accumulated adjusted hours at this date. The complementary account is not concerned since this part of the plan involves defined contributions and the account's liabilities equal its assets.

According to 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:

	2006	2005
General account	4 496 562	4 534 979
Pensioners' account	4 582 834	4 194 881
Actuarial value of accumulated benefits at fiscal year-end	9 079 396	8 729 860
Reserve for economic fluctuations in the general account	899 646	701 023
Reserve for future indexation in the pensioners' account	33 252	
Special reserve taken from general account and equal to the difference between the value of pensioners' account obligations and assets		82 028
Actuarial value of accrued benefits and reserves at fiscal year-end	10 012 294	9 512 911
Actuarial value of accrued benefits at the beginning of the fiscal year	8 729 860	8 389 045
Changes made to the Plan		(57 997)
Changes in actuarial assumptions	240 613	242 934
Interest cumulated on benefits	512 912	515 573
Benefits paid	(528 043)	(504 622)
Transfer from complementary account	82 774	64 978
Loss of experience	41 280	79 949
Actuarial value of accrued benefits at fiscal year-end	9 079 396	8 729 860

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

8. OBLIGATIONS RELATED TO BENEFITS (cont'd)**8.1 Obligations of the Supplemental Pension Plan (cont'd)**

The assumptions used to determine the actuarial value of accrued benefits reflect long-term market situation forecasts. The most significant long-term actuarial assumptions used for the evaluation are:

<i>(as a percentage)</i>	2006	2005
Assets' medium-term and long-term yield	5.82	6.00

The interest rates used to calculate general account commitments are reduced by 0.25% before withdrawal to reflect administration expenses.

8.2 Actuarial value of net available assets

The actuarial value of net assets available for benefit service was determined to reflect long-term market trends (in keeping with the assumptions underlying the evaluation of accrued benefits). This evaluation is based on a method in which the actuarial value of assets is determined using the difference between the real and hoped-for market values of investments for the past three years. The adjusted value of the assets is restricted to 107% of the market value since December 31, 2002.

Current actuarial value of assets:

	2006 ¹	2005 ¹
Fair value of net asset available for benefit payment		
General account	3 596 408	3 435 143
Pensioners' account	4 740 908	4 286 625
	<u>8 337 316</u>	<u>7 721 768</u>
Fair value changes not reflected in actuarial value of net assets	<u>(212 047)</u>	<u>(347 460)</u>
Actuarial value of net assets available for benefits	<u>8 125 269</u>	<u>7 374 308</u>

¹ The values shown represent extrapolations.

8.3 Capitalization policy

Since December 26, 2004, participants' contribution of \$0.80 per hour worked, defined by the clauses that are common to the industry's four sectorial collective agreements, is paid into the complementary account in addition to those already foreseen for special clauses applicable to the different trades and occupations. The participants' contribution to the complementary account has varied from \$0.15 to \$3.80 per hour worked since the beginning of the plan.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

8. OBLIGATIONS RELATED TO BENEFITS (cont'd)**8.3 Capitalization policy (cont'd)**

For fiscal 2006, employer contributions for past and current service paid per hour worked respectively into the general and complementary accounts break down as:

(in dollars)		2006	
		January 1 to April 29	April 30 to December 31
Apprentices	General account		
	Past service	2.305	2.305
	Complementary account		
	Current service	0.46	0.46
Journeypersons	General account		
	Past service	2.625	2.305
	Complementary account		
	Current service	1.20	1.20

The last actuarial evaluation tabled before the Régie des rentes du Québec is that of December 31, 2003. The December 31, 2006 actuarial evaluation shows an economic fluctuation reserve of \$899 646 000 in the general account considering future contributions for services foreseen until December 31, 2018, a reserve for future indexation of \$33 252 000 in the pensioners' account and a uncapitalized obligation at December 31, 2006 of \$954 127 000. This obligation is being capitalized, over a period ending December 31, 2018, by an employer contribution for past service established at \$2.305 per hour worked for an apprentice until December 31 and at \$2.185 thereafter. For a journeyperson, this contribution was \$2.625 per hour worked until April 29, at \$2.305 until December and \$2.185 thereafter.

8.4 Failure to obey the actuarial deficit amortization rule stipulated in the Supplemental Pension Plans Act

The Supplemental Pension Plans Act indicates that the amortization period for actuarial deficits for solvability purposes, resulting from a change in the plan, may not exceed five years. Application of the amortization period stipulated in the Act involves a contribution of \$4.176 per hour worked instead of \$2.185 for an apprentice or a journeyperson to amortize the portion of the deficit of \$965 773 000 at December 31, 2006 that is apparently not covered by contributions for past services foreseen for the next five years.

9. ACTUARIAL LIABILITIES**Insurance plans**

Actuarial liabilities represent basic insurance plan commitments related to insurance coverage in effect at December 31, 2006 and break down as:

	2006	2005
Provisions for benefit commitments	34 321	32 484
Provisions for pensions to disabled insured persons	36 500	33 819
	<u>70 821</u>	<u>66 303</u>

Another actuarial evaluation was prepared for solvability purposes.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

10. COMMITMENTS**General Fund**

The Commission is committed to long-term leases for office space expiring on various dates up to August 31, 2011. These leases include a five-year renewal option. In some cases, these leases include a five-year renewal option. Lease payments for the year ended in 2006, amount to \$1 622 902 (2005: \$1 508 007). The minimum lease payments for the next five years are:

2007	1 606
2008	1 165
2009	722
2010	580
2011	96
	<u>4 169</u>

11. CONTINGENCIES

Legal proceedings against the CCQ, in the amount of \$6 177 064, were under way the date the financial statements were prepared. In some of these proceeding, the CCQ's insurers took up its defence. On the basis of the information available, management feels it unlikely that its liability will be considered significant vis-à-vis these proceedings compared to the CCQ's financial position. Any payment by the CCQ, where applicable, will be recorded to the charges for the fiscal year.

12. LIABILITY FOR BENEFITS ARISING FROM FUTURE SOCIAL BENEFITS

The CCQ offers two defined-contribution pension plans for all of its unionized and non-unionized workers (not covered by collective agreements). It also offers supplemental social benefits plans on retirement. These plans comprise retirement allowances paid on retirement, health insurance coverage plans and life insurance benefits on death.

In December 2005, the CCQ signed an agreement amending the Regulation respecting the Supplemental Pension Plan of Unionized CCQ Workers. Under it, any additional contributions paid by the CCQ to finance the plan's deficit or enable full financing of the fiscal year's contribution are reimbursed to it as soon as surplus assets are posted by the Plan.

The most recent actuarial evaluations for the plans offered were prepared as at December 31, 2004. The next actuarial evaluations will be conducted as at December 31, 2007.

The significant actuarial assumptions used by the Commission to evaluate its obligations under benefits accrued are (weighted average of assumption as at December 31):

Actuarial evaluations

(as a percentage)	Pension plans		Other plans	
	2006	2005	2006	2005
Capitalization rate	5.15	5.20	5.20	5.75
Rate of return projected on plan assets, long-term	7.25	7.25		
Remuneration growth rate	2.25	2.25	2.25	2.25
	to	to	to	to
	4.25	4.25	4.25	4.25

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

12. LIABILITY FOR BENEFITS ARISING FROM FUTURE SOCIAL BENEFITS (cont'd)**Actuarial evaluations (cont'd)**

The health care cost growth rates were the following at December 31:

	2006	2005
Average annual health care cost growth rate	8 %	9 %
Projected annual decline in growth rate	1 %	1 %
Stabilization year	2009	2009

The converging of the plan capitalization situation and the amounts posted to the balance sheet resembled the following at December 31:

Capitalization situation

	Pension plans		Other plans	
	2006	2005	2006	2005
Fair value of plan assets	295 458	265 183		
Obligations for benefits accrued	312 431	295 289	66 687	60 744
Capitalization situation – (deficit)	(16 973)	(30 106)	(66 687)	(60 744)
Unamortized net actuarial loss	(46 472)	(60 164)	(15 663)	(16 061)
Unamortized cost of past services	3 232	3 601		
Asset for benefits accrued (liability)	26 267	26 457	(51 024)	(44 683)
Provision for decline in value	(26 050)	(26 457)		
Asset for benefits accrued (liability)	217		(51 024)	(44 683)

According to the actuarial calculations performed for fiscal 2006, the cost of CCQ social benefits breaks down as:

	Pension plans		Other plans	
	2006	2005	2006	2005
Cost of social benefits recognized in the fiscal year	3 710	3 600	7 903	6 606

The other information concerning the CCQ's predefined benefit plans is:

	Pension plans		Other plans	
	2006	2005	2006	2005
Employer contributions	3 927	3 600		
Employee contributions	2 613	2 661		
Benefits paid	12 457	10 456	1 563	1 454

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

13. FINANCIAL INSTRUMENTS

The CCQ is exposed to fluctuations in exchange rates on investments held in foreign currency and took recourse to foreign exchange forward contracts in order to manage its exchange risk. The table below presents the nominal reference amounts and fair values of exchange forward contracts:

	2006		2005	
	Nominal reference amount	Fair value	Nominal reference amount	Fair value
Selling positions	261 882	(2 003)	290 106	641

The fair value reflects the estimated amounts that the CCQ would receive at the settlement of favourable contracts or would be forced to pay in order to terminate contracts that were not favourable the date the financial information was presented. The fair value corresponds to the market rate.

Forward exchange contracts maturing within three months are distributed over the various funds holding investments in foreign currency as:

	2006	2005
Basic insurance plans	(1 160)	341
Supplemental insurance plans	(113)	37
Training Plan Fund – Work sectors	(519)	164
Training Plan Fund – Residential sector	(89)	30
Holiday and Vacation Pay Fund	(122)	69
	(2 003)	641

The fair value of financial instruments other than shares and bonds is equivalent to the book value, given that they mature in the short term and correspond to market rates.

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 CCQ 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, 2006 was \$23 792 839 (2005: \$19 913 012).

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

15. EQUITY OF THE SUPPLEMENTAL INSURANCE PLANS

The supplemental insurance plans were cumulated and presented in a single financial statement. As at December 31, the equity of each plan is:

	2006	2005
Electricians	8 528	8 360
Roofers	811	769
Tinsmiths	1 688	1 385
Pipefitters	7 639	6 133
Linemen	2 396	1 713
Fire protection mechanics	596	456
Refrigeration mechanics	215	234
Worksite mechanics	584	452
Trowel trades	2 446	1 871
	<u>24 903</u>	<u>21 373</u>

16. EQUITY OF THE ELIGIBILITY FUNDS

The eligibility funds were cumulated and presented in a single financial statement. As at December 31, the equity of each fund is:

	2006	2005
Eligibility Fund – Mechanics	27	38
Eligibility Fund – Locksmiths	92	86
Eligibility Fund – Linemen	12	19
Eligibility Fund – Reinforcing steel erectors	166	141
Eligibility Fund – Electricians	1 083	978
Eligibility Fund – Tinsmiths	345	300
Eligibility Fund – Boilermakers	249	220
Eligibility Fund – Pipefitters	1 680	1 474
	<u>3 654</u>	<u>3 256</u>

17. RECLASSIFICATION

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY OF QUÉBEC****ACTUARIAL VALUATION AS AT DECEMBER 31, 2006
ACTUARIAL OPINION**

The Supplemental Pension Plan for Québec construction industry employees was evaluated at December 31, 2006, based on the Regulation respecting complementary social benefit plans in the construction industry, in effect on this date taking into account the reduction in the employer contribution for past service as set by Resolution CCQ-063559 of December 6, 2006, which comes into effect on January 1, 2007, and based on data at January 1, 2006. This actuarial opinion is based on the report entitled “Évaluation actuarielle au 31 décembre 2006” dated October 16, 2006.

We certify that in our opinion,

- a) On December 31, 2006, the Plan posted an economic fluctuations reserve of \$899 646 000 in the general account, a reserve for future indexation of \$33 252 000 in the pensioners’ account and a shortfall in the adjusted value of assets over the current value of benefits in the general and pensioners’ account of \$954 127 000.
- b) The pension fund was partly solvable at December 31, 2006. If the Plan were to be dissolved on December 31, 2006, the total value of the assets for the three accounts would be less than the total value of the commitments of the three accounts.
- c) The amount of amortization contributions appropriated to financing the shortfall in the adjusted value of assets over the current value of benefits breaks down as:

Year	Apprentices \$/hour	Journeypersons \$/hour
From January 1, 2007 to December 31, 2018	2.185	2.185

- d) The current value of amortization contributions at December 31, 2006 is \$1 887 025 000.
- e) The data on which the evaluation is based is 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 inter-enterprise pension plan, this evaluation meets the requirements of section 4100 of the CICA handbook.

This report and the opinions it contains were produced in accordance with generally accepted actuarial practices.

Claude Lockhead, FICA, FSA
Principal Vice-president

Pierre Guérin, FICA, FSA
Principal Consultant

Montréal, March 29, 2007

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

ACTUARIAL OPINION ON THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006 FOR INSURANCE PLANS OF QUÉBEC CONSTRUCTION INDUSTRY EMPLOYEES BASED ON THE REPORT “RAPPORT SUR L’ÉVALUATION, AUX FINS COMPTABLES, DES PASSIFS ACTUARIELS AU 31 DÉCEMBRE 2006”.

I assessed the actuarial liabilities shown in the balance sheet of the financial statements of the Insurance plans of Québec construction industry employees as at December 31, 2006 in keeping with recognized accounting practices, notably by selecting appropriate assumptions and evaluation methods.

In my opinion, the actuarial liabilities of \$70 821 000 constitute appropriate provision for the obligations of these insurance plans towards the insured parties and are accurately presented in the financial statements.

François Boisvenue, FICA, FSA
Vice-President

Groupe-conseil Aon
700, rue De La Gauthetière
Bureau 1900
Montréal (Québec) H3B 0A7

Montréal, April 24, 2007

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the General Fund, Supplemental Pension Plans Fund, Insurance Plans and Commission de la construction du Québec (CCQ) Trust Funds are the responsibility of management and were approved by the Board of Directors.

The financial statements were prepared by management in keeping with Canadian generally accepted accounting principles and contain amounts based on judgements and estimates. Management establishes these amounts reasonably to ensure that the financial statements are accurate in all aspects. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting and administrative controls and quality financial data presentation systems to provide reasonable assurance that financial information is relevant, accurate and reliable and that CCQ assets are accurately recorded and safeguarded.

The Board of Directors must oversee the manner in which management performs its financial reporting duties in presenting the information and is ultimately responsible for examining and approving the financial statements. It carries out these duties through the auditing committee.

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

The actuaries of the firm Groupe-conseil Aon were named actuarial consultants by the CCQ to value the commitments and actuarial reserves indicated in the respective financial statements of the Supplemental Pension Plan Fund and the Insurance Plans Fund. They presented their conclusions to the CCQ.

The auditing committee is appointed by the Board of Directors and its members do not belong to management. The committee periodically meets with management and the internal auditing and organizational performance support department to discuss the internal controls exercised on the process of reporting financial information, auditing questions and questions regarding presentation of the financial information to ensure that each party properly fulfils its duties and examine the financial statements and outside auditor's report. The auditing committee shares its comments with the Board when the latter approves the publication of the financial statements produced for it.

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

André Ménard
President-Chief Executive Officer

April 20, 2007

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheets of the Commission de la construction du Québec's General Fund and the following trust funds at December 31, 2006: Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector and the statements of operations, change in equity and cash flows for the fiscal year then ended.

I have also audited the statement of net assets available for the service of the supplemental pension plan benefits and the balance sheets and statements of assets and liabilities for the insurance plans and the following trust funds as at December 31, 2006, 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;
- Union Training Contribution Fund;
- Special Compensation Fund;
- Eligibility Fund.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the funds and plans as at December 31, 2006 and the results of the General Fund, Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector's operations and cash flows and the change in net assets available for the service of supplemental pension plan benefits and the equity or assets of the insurance plans and other trust funds for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I 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 Note 2.2, 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. These impacts are disclosed in Note 8.4.

Renaud Lachance, CA
Auditor General of Québec

Québec, April 20, 2007

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**
(R.S.Q., c. S-32.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Gouvernement du Québec operating subsidy	\$687 863	\$678 500
Interest on bank deposits	<u>3 012</u>	<u>896</u>
	<u>690 875</u>	<u>679 396</u>
EXPENSES		
Salaries and fringe benefits	452 013	508 624
Training	2 833	2 832
Travelling and entertainment	2 663	2 683
Professional fees (Note 7)	86 429	52 606
Rent paid to the Société immobilière du Québec	96 778	95 863
Insurance	900	3 186
Maintenance and equipment rental	5 118	4 838
Advertising	2 177	290
Documentation	3 537	2 790
Telecommunications	4 860	4 559
Office supplies	4 269	6 277
Interest and bank charges	1 046	1 012
Amortization of capital assets	4 223	3 731
Amortization of intangible assets	2 551	1 613
Other	<u>725</u>	<u>1 192</u>
	<u>670 122</u>	<u>692 096</u>
CUMULATED SURPLUS (DEFICIT) FOR THE YEAR	20 753	(12 700)
(DEFICIT) CUMULATED SURPLUS, BEGINNING OF YEAR	<u>(11 443)</u>	<u>1 257</u>
CUMULATED SURPLUS (DEFICIT), END OF YEAR	<u>\$9 310</u>	<u>\$(11 443)</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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$97 854	\$69 056
Accounts receivable		6 938
Prepaid expenses	<u>5 166</u>	<u>11 318</u>
	103 020	87 312
Capital assets (Note 3)	12 245	15 335
Intangible assets (Note 4)	<u>6 981</u>	<u>8 542</u>
	<u><u>\$122 246</u></u>	<u><u>\$111 189</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$10 876	\$28 480
Provision for vacation time accumulated	<u>13 988</u>	<u>12 259</u>
	24 864	40 739
Provision for sick leave (Note 5)	<u>88 072</u>	<u>81 893</u>
	112 936	122 632
CUMULATED SURPLUS (DEFICIT)	<u>9 310</u>	<u>(11 443)</u>
	<u><u>\$122 246</u></u>	<u><u>\$111 189</u></u>

The notes are an integral part of these financial statements.

On behalf of the Commission,
M^c Jean Corriveau
President

COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES ET DES ASSOCIATIONS DE PRODUCTEURS

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007

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 is not subject to income tax.

2. ACCOUNTING POLICIES

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

Subsidy reporting

Operating subsidies are posted to proceeds when they are received or receivable if it is relatively certain that they will be received.

Capital assets

Capital assets are recorded at cost and amortized over their expected service life in accordance with the straight-line method and the following annual rates:

Furniture and fixtures	10%
Data processing equipment	20%

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

Intangible assets

Intangible assets are recorded at cost and amortized over their expected service life in accordance with the straight-line method and the following annual rates:

Software	20%
Website	25%

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

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

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Furniture and fixtures	\$17 993	\$11 906	\$6 087	\$7 887
Data processing equipment	12 757	6 599	6 158	7 448
	<u>\$30 750</u>	<u>\$18 505</u>	<u>\$12 245</u>	<u>\$15 335</u>

Acquisitions for the fiscal year totalled \$1 133 (2006: \$3 020).

A piece of furniture (cost and respective cumulated amortization: \$965) was written off during the fiscal year.

4. INTANGIBLE ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Website	\$4 690	\$1 954	\$2 736	\$3 908
Software	7 391	3 146	4 245	4 634
	<u>\$12 081</u>	<u>\$5 100</u>	<u>\$6 981</u>	<u>\$8 542</u>

Acquisitions for the fiscal year totalled \$990 (2006: \$2 995).

5. FUTURE FRINGE BENEFITS
Pension plans

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

The Commission's contributions charged to the year-end statement total \$32 381 (2006: \$19 216). Its liability towards these plans is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$81 893	\$69 151
Annual expenses	6 895	13 635
Benefits paid during the year	<u>(716)</u>	<u>(893)</u>
Balance, end of year	<u>\$88 072</u>	<u>\$81 893</u>

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

6. 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.

7. PROFESSIONAL FEES

The Commission is composed of three members, including a chairman and vice-chairman, appointed by the Government. The Government may also, for the proper dispatch of the business of the Commission, appoint additional members on a temporary basis for such period as it may determine. At March 31, 2007, the Commission had a total of five members—two full-time and three part-time. The fiscal year's fees for part-time members totalled \$24 605 (2006: \$13 371).

8. FINANCIAL INSTRUMENTS

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

**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 prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

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

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

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

M^e Jean Corriveau, President
M^e Hélène Lavallée, Secretary and Legal Advisor

Montréal, June 28, 2007

AUDITOR'S REPORT

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, 2007 and statement of operations and cumulated surplus for the year then ended. 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 Canadian generally accepted auditing standards, which 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, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Auditor General of Québec
Diane Bergeron, CA
Senior Manager

Québec, June 28, 2007

COMMISSION DES LÉSIONS PROFESSIONNELLES
(R.S.Q., c.A-3.001)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Commission de la santé et de la sécurité du travail contribution	\$52 786 035	\$52 759 430
Interest	329 233	172 886
Publications and services	<u>10 088</u>	<u>12 175</u>
	<u>53 125 356</u>	<u>52 944 491</u>
EXPENSES		
Salaries and fringe benefits	34 840 718	33 974 635
Transportation and communications	2 569 197	2 484 607
Professional services	7 032 398	7 196 064
Rent and maintenance	5 094 760	5 165 447
Supplies	516 049	604 386
Amortization of capital assets	1 603 600	1 534 589
Amortization of intangible assets	166 065	93 213
Interest on long-term debt	36 348	22 832
Other	<u>90 821</u>	<u>16 397</u>
	<u>51 949 956</u>	<u>51 092 170</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$1 175 400</u></u>	<u><u>\$1 852 321</u></u>

The notes are an integral part of these financial statements.

DEFICIT FUND BALANCE STATEMENT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
FUND DEFICIT, BEGINNING OF YEAR	\$(6 150 051)	\$(8 002 372)
Excess revenues over expenses for the fiscal year	<u>1 175 400</u>	<u>1 852 321</u>
FUND DEFICIT, END OF YEAR	<u><u>\$(4 974 651)</u></u>	<u><u>\$(6 150 051)</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLES**BALANCE SHEET**
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$7 415 061	\$6 421 970
Accounts receivable	31 560	50 944
Interest accrued	84 381	45 528
Advances for travel expenses	1 000	2 040
Prepaid expenses	<u>660 442</u>	<u>665 900</u>
	8 192 444	7 186 382
Capital assets (Note 3)	3 131 188	3 016 345
Intangible assets (Note 4)	<u>307 452</u>	<u>391 690</u>
	<u>\$11 631 084</u>	<u>\$10 594 417</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$1 703 562	\$2 529 641
Instalments on long-term debt (Note 5)	185 084	202 432
Provision for transition allowances (Note 7)	616 431	148 813
Provision for sick leave and vacation time (Note 7)	<u>3 344 215</u>	<u>3 511 521</u>
	5 849 292	6 392 407
Long-term debt (Note 5)	544 794	53 897
Provision for transition allowances (Note 7)	2 764 126	3 051 354
Provision for sick leave and vacation time (Note 7)	<u>7 447 523</u>	<u>7 246 810</u>
	16 605 735	16 744 468
FUND DEFICIT	<u>(4 974 651)</u>	<u>(6 150 051)</u>
	<u>\$11 631 084</u>	<u>\$10 594 417</u>
COMMITMENTS (Note 8)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
 Micheline Bélanger, Chairman
 Francis Lachance, Executive Director, Administration

COMMISSION DES LÉSIONS PROFESSIONNELLESSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$1 175 400	\$1 852 321
Adjustments for:		
Amortization of capital assets	1 603 600	1 534 589
Amortization of intangible assets	166 065	93 213
Loss on proceeds from sale of capital assets	4 013	2 088
	<u>2 949 078</u>	<u>3 482 211</u>
Variations in non-cash items related to operations (Note 6)	<u>(449 716)</u>	<u>(496 862)</u>
Cash flows from operating activities	<u>2 499 362</u>	<u>2 985 349</u>
INVESTMENT ACTIVITIES		
Proceeds from sale of capital assets		8 780
Acquisition of capital assets	(1 902 098)	(1 232 736)
Acquisition of intangible assets	<u>(77 722)</u>	<u>(238 605)</u>
Cash flows from investment activities	<u>(1 979 820)</u>	<u>(1 462 561)</u>
FINANCING ACTIVITIES		
Increase in long-term debt	795 883	
Repayment of long-term debt	<u>(322 334)</u>	<u>(200 842)</u>
Cash flows from financing activities	<u>473 549</u>	<u>(200 842)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	993 091	1 321 946
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6 421 970</u>	<u>5 100 024</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u><u>\$7 415 061</u></u>	<u><u>\$6 421 970</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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's fund, which contains the sums paid into it by the Commission de la santé et de la sécurité du travail according to terms and conditions determined by the Government.

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

2. ACCOUNTING POLICIES

Use of estimates

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

Proceeds reporting

The Commission de la santé et de la sécurité du travail's contribution is posted to proceeds when it is received or receivable if it is relatively certain that it will be received.

Amortization of long-term assets

Long-term assets held for use are reviewed to determine whether their value has fallen when events or changes in the situation show that it may not be possible to recover their book value. The recovery test is performed by comparing their book value with unrealized net future cash flows envisaged for them plus the residual value. If the Commission deems that the value of an asset cannot be recovered, the amount of the amortization to be posted corresponds to the surplus in the asset's book value over its fair value.

Cash and cash equivalents

It is the Commission's policy to present bank balances and short-term investments maturing within three months of the date they were acquired or that are convertible to cash at any time as cash and cash equivalents.

Capital assets

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

Office furniture and equipment	20.0%
Automotive equipment	20.0%
Data processing equipment	33.3%
Leasehold improvements	20.0%

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized over their expected service life in accordance with the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that it may not be possible to recover their book value.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

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

3. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$4 199 468	\$3 614 304	\$585 164
Automotive equipment	61 835	17 364	44 471
Computer equipment	3 695 818	2 537 232	1 158 586
Leasehold improvements	4 362 306	3 019 339	1 342 967
	<u>\$12 319 427</u>	<u>\$9 188 239</u>	<u>\$3 131 188</u>
			<u>\$3 016 345</u>

Office equipment and computer equipment whose net book values were \$85 817 and \$17 675 respectively (2006: \$239 265 and \$42 390) were not amortized because they were not being used at fiscal year-end.

4. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Software	\$506 704	\$342 134	\$164 570
Computer development	235 916	93 034	142 882
	<u>\$742 620</u>	<u>\$435 168</u>	<u>\$307 452</u>
			<u>\$391 690</u>

At March 31, 2006, software whose book value was \$73 070 was not amortized because it was not being used at fiscal year-end.

5. LONG-TERM DEBT

	2007	2006
Borrowings from the Société immobilière du Québec, fixed rate varying from 4.70% to 5.52%, repayable in monthly instalments of \$17 979 including interest and maturing until June 2011	\$729 878	\$256 329
Minus: Payments due within one year	<u>185 084</u>	<u>202 432</u>
	<u>\$544 794</u>	<u>\$53 897</u>

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. LONG-TERM DEBT (cont'd)

Capital payments due over the next five fiscal years break down as:

2008	\$185 084
2009	175 298
2010	164 368
2011	172 262
2012	32 866
	<u>\$729 878</u>

6. CASH FLOWS

	<u>2007</u>	<u>2006</u>
Variation in non-cash elements linked to operations		
Decrease in accounts receivable	\$19 384	\$(41 866)
Increase in accrued interest	(38 853)	(16 841)
Change in advances for travel expenses	1 040	10 960
Decrease in prepaid expenses	5 458	(92 006)
Decrease in accounts payable and accrued liabilities	(650 542)	(633 534)
Change in provision for transition allowances	180 390	153 216
Change in provision for sick leave and vacation time	33 407	123 209
	<u>\$(449 716)</u>	<u>\$(496 862)</u>
Composition of cash and cash equivalents		
Cash on hand (rate 3.5%) (2006: 2.94%)	\$4 415 061	\$4 421 970
Term deposit (rate: 3.75%) (2006:2.50%)	3 000 000	2 000 000
	<u>\$7 415 061</u>	<u>\$6 421 970</u>

Interest payments on the long-term debt for the fiscal year totalled \$34 745 (2006: \$21 767).

At March 31, 2007, the item "Accounts payable and accrued liabilities" included the acquisition of capital assets and intangible assets of \$161 586 and \$25 372 respectively (2006: \$341 228 and \$21 267).

7. FUTURE FRINGE BENEFITS**Pension plans**

Commission staff participates in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that 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 \$1 628 069 (2006: \$1 626 677). Its liability towards these Government plans is restricted to its employer contributions.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**7. FUTURE FRINGE BENEFITS (cont'd)****Provision for transition allowances**

Transition allowances are payable to commissioners, other than public-service commissioners, whose mandate has not been not renewed or who do not seek mandate renewal. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners and Order-in-Council 1488-96 of December 4, 1996 and its subsequent amendments, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2007	2006
Balance, beginning of year	\$3 200 167	\$3 046 951
Annual expenses	289 508	153 216
Benefits paid during the year	(109 118)	
Balance, end of year	<u>\$3 380 557</u>	<u>\$3 200 167</u>
Short-term provision	\$616 431	\$148 813
Long-term provision	<u>2 764 126</u>	<u>3 051 354</u>
	<u>\$3 380 557</u>	<u>\$3 200 167</u>

Provision for sick leave and vacation time

	2007		2006
	Sick leave	Vacation time	Total
Balance, beginning of year	\$6 768 304	\$3 990 027	\$10 758 331
Annual expenses	1 258 607	3 005 818	4 264 425
Benefits paid during the year	(1 090 234)	(3 140 784)	(4 231 018)
Balance, end of year	<u>\$6 936 677</u>	<u>\$3 855 061</u>	<u>\$10 791 738</u>
Short-term provision	\$797 024	\$2 547 191	\$3 344 215
Long-term provision	<u>6 139 653</u>	<u>1 307 870</u>	<u>7 447 523</u>
	<u>\$6 936 677</u>	<u>\$3 855 061</u>	<u>\$10 791 738</u>

8. COMMITMENTS

Minimal contractual commitments for operating lease and space rental contracts break down as follows at March 31, 2007:

2008	\$220 197
2009	96 390
2010	<u>7 350</u>
	<u>\$323 937</u>

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. 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.

10. FINANCIAL INSTRUMENTS

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

The fair value of the long-term debt, determined using the capitalized value of future cash flows under current funding agreements, in accordance with the interest rates offered to the Commission on the market for borrowings with similar conditions and maturity dates, is:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Long-term debt	<u>\$729 878</u>	<u>\$673 632</u>	<u>\$256 329</u>	<u>\$250 469</u>

11. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

COMMISSION DES LÉSIONS PROFESSIONNELLES

MANAGEMENT'S REPORT

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial information. Each manager performs a monthly analysis and verification of his administrative unit's budgetary position.

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

The Board of Directors must oversee the manner in which management performs its financial reporting duties.

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

Micheline Bélanger
Chairman

Québec, June 7, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des lésions professionnelles as at March 31, 2007, the statements of operations and deficit fund balance and cash flows for the year then ended. 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 Canadian generally accepted the auditing standards, which requires planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 7, 2007

COMMISSION DES NORMES DU TRAVAIL
(R.S.Q., c. N-1.1)

STATEMENT OF RESULTS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Employer contributions (Note 3)	\$54 701 582	\$52 095 369
Interest on investments	982 994	697 831
Other (Note 4)	<u>229 020</u>	<u>217 293</u>
	<u>55 913 596</u>	<u>53 010 493</u>
EXPENSES		
Salaries and fringe benefits	33 993 709	32 520 376
Professional and administrative services	3 739 349	3 266 135
Travelling expenses	1 331 815	1 307 795
Telecommunications and mail	1 238 019	1 250 847
Advertising and information	988 580	512 227
Rental - office space, equipment, etc.	3 817 653	3 676 865
Maintenance	922 805	1 057 141
Supplies	389 846	389 247
Interest	79 543	1 337
Amortization of capital assets	1 489 615	1 382 206
Amortization of intangible assets	1 674 755	1 616 703
Net loss on sale of capital assets	198	2 086
Reimbursement of Commission des relations du travail expenses (Note 5)	<u>6 906 900</u>	<u>5 924 630</u>
	<u>56 572 787</u>	<u>52 907 595</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(659 191)	102 898
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>51 177 482</u>	<u>51 074 584</u>
CUMULATED SURPLUS, END OF YEAR	<u><u>\$50 518 291</u></u>	<u><u>\$51 177 482</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL

BALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Investments (Note 6)	\$48 026 558	\$46 308 271
Accounts receivable	170 729	175 173
Accrued interest on investments	<u>120 204</u>	<u>91 045</u>
	48 317 491	46 574 489
Capital assets (Note 7)	3 900 317	3 851 733
Intangible assets (Note 8)	<u>13 554 149</u>	<u>14 441 875</u>
	<u>\$65 771 957</u>	<u>\$64 868 097</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$249 275	\$147 724
Accounts payable and accrued liabilities (Note 10)	3 669 936	3 057 526
Claims collected for remittance to employees (Note 11)	313 646	81 184
Provision for vacation time (Note 12)	<u>4 213 440</u>	<u>3 947 061</u>
	8 446 297	7 233 495
Provision for sick leave (Note 12)	6 807 369	6 457 120
CUMULATED SURPLUS (Note 13)	<u>50 518 291</u>	<u>51 177 482</u>
	<u>\$65 771 957</u>	<u>\$64 868 097</u>
COMMITMENTS (Note 14)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
Gaston Lafleur, Member, Board of Directors and
Chairman, Auditing Committee
André Brochu, Attorney, President-Executive Director

COMMISSION DES NORMES DU TRAVAILSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$(659 191)	\$102 898
Items not affecting cash flows:		
Amortization of capital assets	1 489 615	1 382 206
Amortization of intangible assets	1 674 755	1 616 703
Net loss on sale of capital assets	<u>198</u>	<u>2 086</u>
	<u>2 505 377</u>	<u>3 103 893</u>
Change in non-cash items related to operations:		
Accounts receivable	4 444	(49 132)
Accrued interest on investments	(29 159)	(23 856)
Accounts payable and accrued liabilities	60 611	(1 503 948)
Claims collected for remittance to employees	232 462	(81 369)
Provision for vacation time	266 379	(779)
Provision for sick leave	<u>350 249</u>	<u>325 819</u>
	<u>884 986</u>	<u>(1 333 265)</u>
Cash flows from operating activities	<u>3 390 363</u>	<u>1 770 628</u>
INVESTMENT ACTIVITIES		
Change in investments	12 300 000	(6 100 000)
Acquisition of capital assets (Note 10)	(1 051 290)	(1 235 224)
Acquisition of intangible assets (Note 10)	(733 026)	(1 495 689)
Proceeds on sale of capital assets	<u>10 689</u>	<u>1 758</u>
Cash flows from (for) investment activities	<u>10 526 373</u>	<u>(8 829 155)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13 916 736	(7 058 527)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21 860 547</u>	<u>28 919 074</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15)	<u><u>\$35 777 283</u></u>	<u><u>\$21 860 547</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Commission des normes du travail (Commission), established under the Act respecting labour standards (R.S.Q., c. N-1.1), is a legal person within the meaning of the Civil Code and has all the general powers of such a legal person.

The Commission 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 and section 149 of the Canadian Income Tax Act, the Commission is subject to income tax.

2. ACCOUNTING POLICIES

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

Investments

Investments are recorded using the lower of cost or market method.

Cash and cash equivalents

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

Capital assets

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

	Rate
Equipment	20%
Furniture	20%
Automotive equipment	33.33%
Leasehold improvement	20%
Data processing equipment	33.33%

The Commission regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. If the book value exceeds the estimated recoverable amount, depreciation corresponding to the surplus book value over fair value is posted to results.

Intangible assets

Intangible assets, comprising software and computer systems, are recorded at cost and amortized over their expected service life in accordance with 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.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

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

	Rate
Software	33.33%
Computer systems	10 and 20%

Computer systems in the development stage are amortized when completed and operational.

Employer contributions

Annually, the Minister of Revenue remits the amounts it collects as contributions from employers governed by the Act respecting labour standards to the Commission. These contributions, determined jointly with Revenu Québec, are posted based on estimated growth in the payroll subject to contributions for the calendar year preceding the fiscal year end. They remain subject to auditing and, where applicable, the adjustments are posted to contributions for the fiscal year in which they become known.

Pension plans

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

3. EMPLOYER CONTRIBUTIONS

	2007	2006
Estimated contributions for the year	\$54 194 585	\$51 885 083
Increase (decrease) in contributions for previous fiscal years		
2006	166 594	
2005	193 617	360 056
2004	130 572	(1 217)
2003	17 560	19 694
2002	(981)	(40 502)
1998 to 2001	(365)	(127 745)
	506 997	210 286
	<u>\$54 701 582</u>	<u>\$52 095 369</u>
Estimated growth rate of payroll subject to contributions	4.22%	3.64%
Estimated payroll subject to contributions used to determine contributions for the fiscal year (in billions of \$)	67.7	64.9

COMMISSION DES NORMES DU TRAVAILNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. OTHER PROCEEDS**

	2007	2006
Claims collected for employees that could not be located	\$17 997	\$19 295
Sale of publications	4 628	2 534
Lump sum amounts on claims collected from employers	206 395	195 464
	<u>\$229 020</u>	<u>\$217 293</u>

5. REIMBURSEMENT OF COMMISSION DES RELATIONS DU TRAVAIL EXPENSES

Under section 28.1 of the Act respecting labour standards, the Commission contributes to Commission des relations du travail funds to cover expenses incurred related to the provisions of this Act regarding recourses against prohibited practices and unfair dismissals. During the fiscal year, this section was amended to include cases of psychological harassment as of April 1, 2007. The amount of the Commission des normes du travail contribution is determined by the Government, after the Minister consults the Commission. For fiscal 2007, this amount was set at \$6 906 900 (2006: \$5 924 630). The amount of the contribution for fiscal 2008 has not yet been determined.

6. INVESTMENTS

	2007	2006
Term deposits	\$20 150 000	\$32 800 000
Discount notes	18 004 553	
Bankers' acceptances	9 872 005	13 508 271
	<u>\$48 026 558</u>	<u>\$46 308 271</u>

Interest rates vary from 4.23% to 4.33% (2006: 3.76% to 4.15%), and investments mature in the coming fiscal year.

7. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Equipment	\$1 651 755	\$1 306 925	\$344 830	\$447 769
Furniture	2 234 676	1 218 472	1 016 204	1 294 561
Automotive equipment	23 874	3 903	19 971	7 000
Leasehold improvements	5 880 043	4 205 585	1 674 458	1 561 752
Data processing equipment	4 337 954	3 493 100	844 854	540 651
	\$14 128 302	\$10 227 985	\$3 900 317	\$3 851 733

The following capital assets were not amortized, given that they were not operational during the fiscal year:

	2007	2006
Equipment		\$25 903
Leasehold improvements	\$180 000	23 365
Data processing equipment	117 385	
	<u>\$297 385</u>	<u>\$49 268</u>

COMMISSION DES NORMES DU TRAVAILNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**8. INTANGIBLE ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Software	\$626 636	\$512 647	\$113 989
Data processing	19 972 237	6 833 437	13 138 800
	20 598 873	7 346 084	13 252 789
Computer system in the development stage	301 360		301 360
	\$20 900 233	\$7 346 084	\$13 554 149
			\$14 441 875

9. SHORT-TERM BORROWING

The Commission's Board of Directors authorized short-term borrowings in the form of bank credit lines, promissory notes or bank acceptances up to a maximum of \$5 000 000 for fiscal 2007 (2006: \$6 000 000). Borrowings are negotiated during the fiscal year based on the Commission's cash requirements. Interest paid by the Commission during the fiscal year totalled \$3 379 (2006: \$1 337). At March 31, 2007 and 2006, the Commission had no short-term borrowings.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The item "Accounts payable and accrued liabilities" includes an amount for acquisition of capital assets and intangible assets, representing \$669 811 and \$145 178 respectively (2006: \$172 015 and \$91 175).

11. CLAIMS COLLECTED PAYABLE TO EMPLOYEES

	2007	2006
Balance, beginning of year	\$81 184	\$162 553
Claims collected by employers	2 874 737	2 608 702
	2 955 921	2 771 255
Claims paid to employees	2 624 278	2 670 776
Transfer to revenues of claims collected for employees that could not be located	17 997	19 295
	2 642 275	2 690 071
Balance, end of year	\$313 646	\$81 184

12. FUTURE FRINGE BENEFITS**Pension plans**

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

The Commission's contributions charged to the year-end statement amount to \$1 402 291 (2006: \$1 388 200). Its liability towards these Government plans is restricted to its employer contributions.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. FUTURE FRINGE BENEFITS**Provision for vacation time and sick leave**

	2007		2006	
	Vacation time	Sick leave	Vacation time	Sick leave
Balance, beginning of year	\$3 947 061	\$6 457 120	\$3 947 840	\$6 131 301
Annual expenses	3 086 238	1 616 404	2 695 004	1 430 069
Benefits paid during the year	(2 819 859)	(1 266 155)	(2 695 783)	(1 104 250)
Balance, end of year	<u>\$4 213 440</u>	<u>\$6 807 369</u>	<u>\$3 947 061</u>	<u>\$6 457 120</u>

13. CUMULATED SURPLUS

The Commission receives approximately 97% of its revenues in the last month of its fiscal year. Its operations are financed, among other things, from its surplus represented essentially by investments. For example, the \$50 518 291 surplus as at March 31, 2007 will be used to finance about 90% of the operating expenses and acquisition of capital assets and intangible assets anticipated for the first eleven months of the coming year.

14. COMMITMENTS**Agreements with the Gouvernement du Québec**

Under section 6.1 of the Act respecting labour standards, the Commission signed an employer contribution collection agreement with Revenu Québec. This agreement, which expired on December 31, 2002, remains in effect until a new agreement is signed. Collection costs posted to results totalled \$420 810 for fiscal 2007 (2006: \$411 752) and are included under "Professional and administrative services".

Other

The Commission is committed under long-term agreements and leases, maturing on various dates until 2012. Minimal contractual agreements payable for operating leases and contracts for the acquisitions of goods and services break down as follows at March 31, 2007:

	Operating lease	Goods and services	Total
2008	\$3 812 128	\$3 725 517	\$7 537 645
2009	48 009	1 177 605	1 225 614
2010	32 462	499 455	531 917
2011	19 790	113 050	132 840
2012	6 300		6 300
	<u>\$3 918 689</u>	<u>\$5 515 627</u>	<u>\$9 434 316</u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents shown in the statement of cash flows include the following amounts posted in the balance sheet:

	<u>2007</u>	<u>2006</u>
Investments	\$36 026 558	\$22 008 271
Bank overdraft	<u>(249 275)</u>	<u>(147 724)</u>
	<u>\$35 777 283</u>	<u>\$21 860 547</u>

16. FINANCIAL INSTRUMENTS

The book value of short-term assets and liabilities is a reasonable estimate of their fair value, given that they mature in the near future.

The Commission manages its investment portfolio in keeping with its cash flow needs in order to optimize its interest income.

Management feels that these financial instruments do not expose the Commission to significant interest-rate risks.

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

18. PAY EQUITY

In keeping with the provisions of the Pay Equity Act (R.S.Q., c. E-12.001), the Commission paid retrospective salary adjustments to its employees. The amounts posted to results for the fiscal year are:

Salaries and fringe benefits	\$831 153
Interests	<u>75 572</u>
	<u>\$906 725</u>

19. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

COMMISSION DES NORMES DU TRAVAIL**MANAGEMENT'S REPORT**

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

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

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

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

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

André Brochu, Attorney
President-Executive Director

Gaétan Thériault
Director-General, Management Services

Québec, April 27, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des normes du travail as at March 31, 2007 and the statements of results and cumulated surplus and cash flows for the year then ended. 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 Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, April 27, 2007

COMMISSION DES RELATIONS DU TRAVAIL
(R.S.Q., c. C-27)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Contributions		
Gouvernement du Québec		
Ministère du Travail	\$7 898 100	\$7 450 500
Conseil du Trésor – pay equity	117 696	98 821
Commission des normes du travail	6 906 900	5 924 630
Commission de la construction du Québec	210 000	
Sale of forms and documents	6 268	7 057
Interest	77 534	24 934
	<u>15 216 498</u>	<u>13 505 942</u>
EXPENSES		
Salaries and fringe benefits	10 082 510	10 039 379
Transportation and communication services	494 680	684 194
Professional and administrative services	1 271 948	1 190 126
Maintenance and repairs	16 511	74 398
Rent	1 407 733	1 388 005
Furnishings and supplies	86 488	84 198
Material and equipment	48 998	37 394
Other expenses	471	173
Interest – long-term debt	62 933	56 030
Amortization of		
Capital assets	313 933	370 223
Intangible assets	71 424	73 238
Doubtful accounts and bad debts	418	
	<u>13 858 047</u>	<u>13 997 358</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	1 358 451	(491 416)
CUMULATED (DEFICIT) SURPLUS, BEGINNING OF YEAR	<u>(477 123)</u>	<u>14 293</u>
CUMULATED SURPLUS (DEFICIT), END OF YEAR	<u><u>\$881 328</u></u>	<u><u>\$(477 123)</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$20 722	\$1 807
Accounts receivable	42 601	138 687
Consolidated Revenue Fund advance (Note 3)	4 905 654	3 039 276
Amount owed by the Gouvernement du Québec (Note 4)	270 885	211 572
	<u>5 239 862</u>	<u>3 391 342</u>
Amount owed by the Gouvernement du Québec (Note 4)		270 885
Capital assets (Note 6)	1 542 654	1 528 879
Intangible assets (Note 7)	<u>113 391</u>	<u>172 107</u>
	<u><u>\$6 895 907</u></u>	<u><u>\$5 363 213</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$469 584	\$416 728
Long-term debt maturing in the next fiscal year (Note 9)	189 893	181 586
	<u>659 477</u>	<u>598 314</u>
Provision for transition allowances (Note 8)	1 069 883	889 596
Provision for sick leave and vacation time (Note 8)	3 131 949	3 226 097
Long-term debt (Note 9)	1 153 270	1 126 329
	<u>6 014 579</u>	<u>5 840 336</u>
CUMULATED SURPLUS (DEFICIT)	<u>881 328</u>	<u>(477 123)</u>
	<u><u>\$6 895 907</u></u>	<u><u>\$5 363 213</u></u>
COMMITMENTS (Note 11)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
Andrée St-Georges, Chairman

COMMISSION DES RELATIONS DU TRAVAILSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES (Note 10)		
Excess (deficiency) of revenues over expenses	\$1 358 451	\$(491 416)
Items not affecting cash flows:		
Amortization of capital assets	313 933	370 223
Amortization of intangible assets	71 424	73 238
Net change in non-cash items related to operations:		
Accounts receivable	96 086	(28 965)
Accounts payable and accrued liabilities	52 856	(90 170)
Net change in provisions for:		
Transition allowances	180 287	134 266
Sick leave and vacation time	(94 148)	245 406
Cash flows from (for) operating activities	<u>1 978 889</u>	<u>212 582</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(327 708)	(1 328 474)
Acquisition of intangible assets	(12 708)	
Proceeds on sale of intangible asset		27 200
Receipt – Amount owed by the Gouvernement du Québec	211 572	113 326
Cash flows for investment activities	<u>(128 844)</u>	<u>(1 187 948)</u>
FINANCING ACTIVITIES		
Long-term borrowings	235 252	1 113 509
Repayment of the long-term debt	(200 004)	(167 770)
Cash flows from financing activities	<u>35 248</u>	<u>945 739</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 885 293	(29 627)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3 041 083</u>	<u>3 070 710</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)	<u>\$4 926 376</u>	<u>\$3 041 083</u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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 with regard to 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 26 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 paid by the Commission de la construction du Québec under section 8.1 of the Act respecting labour relations, vocational training and workforce management in the construction industry (c. R-20);
- amounts 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

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

Proceeds recording

Contributions are posted to proceeds when they are received or receivable if it is relatively certain that they will be received.

Capital assets

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

	<u>Rates</u>
Office furniture	20 %
Computer material and equipment	33 1/3 %
Leasehold improvements	Duration of lease

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

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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

Computer development is recorded at cost and amortized over its expected service life in accordance with 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 their book value. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

As system's amortization begins the month after it becomes operational.

Pension plans

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

Cash and cash equivalents

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

3. CONSOLIDATED REVENUE FUND ADVANCE

The advance to the Consolidated Revenue Fund bears interest at the prime rate minus 2.5%. At March 31, 2007, the prime rate was 6.0% (2006: 5.5%).

4. AMOUNT OWED BY THE GOUVERNEMENT DU QUÉBEC

The amount owed by the Gouvernement du Québec does not bear interest. The balance is payable in the next fiscal year.

5. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the short term. The fair value of the amount owed by the Gouvernement du Québec cannot be estimated, given the absence of a market for this type of instrument.

6. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net value	Net value
Office furniture	\$200 519	\$83 389	\$117 130	\$124 025
Computer material and equipment	641 955	517 565	124 390	128 004
Leasehold improvements	1 914 734	613 600	1 301 134	1 276 850
	<u>\$2 757 208</u>	<u>\$1 214 554</u>	<u>\$1 542 654</u>	<u>\$1 528 879</u>

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**7. INTANGIBLE ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net value
Computer development	\$357 119	\$256 436	\$100 683
Work in progress	12 708		12 708
	<u>\$369 827</u>	<u>\$256 436</u>	<u>\$113 391</u>
			<u>\$172 107</u>

8. FUTURE FRINGE BENEFITS**Pension plans**

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

The Commission's contributions charged to the year-end statement total \$480 732 (2006: \$438 616). Its liability towards these Government plans is restricted to its employer contributions.

Provision for transition allowances

Transition allowances are payable to commissioners, whose mandate has not been not renewed or who do not seek mandate renewal. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2007	2006
Balance, beginning of year	\$889 596	\$755 330
Annual expenses	261 542	282 649
Allowance for the year	<u>(81 255)</u>	<u>(148 383)</u>
Balance, end of year	<u>\$1 069 883</u>	<u>\$889 596</u>

Provision for sick leave and vacation time

	2007		2006
	Sick leave	Vacation time	Total
Balance, beginning of year	\$1 960 496	\$1 265 601	\$3 226 097
Annual expenses	322 534	893 363	1 215 897
Benefits paid during the year	<u>(224 315)</u>	<u>(1 085 730)</u>	<u>(1 310 045)</u>
Balance, end of year	<u>\$2 058 715</u>	<u>\$1 073 234</u>	<u>\$3 131 949</u>
			<u>\$3 226 097</u>

COMMISSION DES RELATIONS DU TRAVAILNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. LONG-TERM DEBT**

	<u>2007</u>	<u>2006</u>
Bonds resulting from leasehold improvement funding included in leases, at interest rates varying between 4.69% and 6.08%, maturing up to 2021	\$1 343 163	\$1 307 915
Minus: Portion maturing within one year	<u>189 893</u>	<u>181 586</u>
	<u>\$1 153 270</u>	<u>\$1 126 329</u>
Minimum future instalments payable in coming fiscal years for obligations resulting from leasehold improvement funding break down as:		
2008		\$249 005
2009		181 341
2010		155 796
2011		155 796
2012		133 846
2013 to 2021		<u>842 109</u>
Total minimum amounts payable		1 717 893
Minus: Amount representing interest included in minimum amounts payable		<u>(374 730)</u>
		<u>\$1 343 163</u>

The long-term debts' fair value equals cost, given that rates have not changed significantly.

10. CASH FLOWS

Cash and cash flows comprise the following:

	<u>2007</u>	<u>2006</u>
Cash on hand	\$20 722	\$1 807
Consolidated Revenue Fund advance	<u>4 905 654</u>	<u>3 039 276</u>
	<u>\$4 926 376</u>	<u>\$3 041 083</u>
Interest paid during the fiscal year	<u>\$62 933</u>	<u>\$56 030</u>

11. COMMITMENTS

The Commission is committed to paying certain amounts under a service agreement with the Ministère de l'Emploi et de la Solidarité sociale that are due on March 31, 2009. These commitments total \$1 873 200, including the following payments for the next two fiscal years: 2008, \$936 600, 2009: \$936 600.

Further, it is committed to paying \$9 814 468 under leases for premises, which run until May 2020 and include a renewal option. A clause provides for reviewing rent to reflect operating expenses and taxes.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

11. COMMITMENTS (cont'd)

Payments over the next fiscal years, based on the rental amount at March 31, 2007, are:

2008	\$1 291 048
2009	1 291 048
2010	1 291 048
2011	1 291 048
2012	942 294
2013 to 2021	<u>3 707 982</u>
	<u><u>\$9 814 468</u></u>

12. 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.

13. TRANSFER OF RESPONSIBILITIES OF THE COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

The Act to amend the Labour Code and other legislative provisions (2006, c. 58) was assented on December 14, 2006. It abolishes the office of Commissaire de l'industrie de la construction, transfers recourses and integrates Commissaire staff into the Commission des relations du travail. These provisions come into effect on the date or dates set by the Government.

14. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

COMMISSION DES RELATIONS DU TRAVAIL**MANAGEMENT'S REPORT**

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

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

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

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

Andrée St-Georges
President

Québec, June 11, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des relations du travail as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. 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 Canadian generally accepted auditing standards, which require planning and performing an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management, and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 11, 2007

COMMISSION DES SERVICES JURIDIQUES
(R.S.Q., c. A-14)
GENERAL FUND

STATEMENT OF CONSOLIDATED RESULTS
for the year ended March 31, 2007

	Operations		Private practice (s. 52)		Special projects		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES								
Gouvernement du Québec grants								
Regular revenues	86 580 230	74 910 100	46 653 300	47 653 300			133 233 530	122 563 400
Court costs	1 392 714	1 329 228	802 286	865 772			2 195 000	2 195 000
Other organization- Conseil du trésor		961 559						961 559
Special federal projects					3 423 569	3 089 595	3 423 569	3 089 595
Other revenues					200	3 610	200	3 610
	<u>87 972 944</u>	<u>77 200 887</u>	<u>47 455 586</u>	<u>48 519 072</u>	<u>3 423 769</u>	<u>3 093 205</u>	<u>138 852 299</u>	<u>128 813 164</u>
EXPENSES	<u>88 397 359</u>	<u>77 955 311</u>	<u>42 891 695</u>	<u>47 842 079</u>	<u>3 423 769</u>	<u>3 093 205</u>	<u>134 712 823</u>	<u>128 890 595</u>
	(424 415)	(754 424)	4 563 891	676 993			4 139 476	(77 431)
OTHER REVENUES (Note 5)	<u>2 247 038</u>	<u>2 020 423</u>	<u>620 616</u>	<u>712 020</u>			<u>2 867 654</u>	<u>2 732 443</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>1 822 623</u>	<u>1 265 999</u>	<u>5 184 507</u>	<u>1 389 013</u>			<u>7 007 130</u>	<u>2 655 012</u>

This information is an integral part of the consolidated financial statements.

COMMISSION DES SERVICES JURIDIQUES

GENERAL FUND

STATEMENT OF CHANGE IN CONSOLIDATED NET ASSETS
for the year ended March 31, 2007

	2007			2006		
	General reserve	Net assets invested in fixed assets	Total	General reserve	Net assets invested in fixed assets	Total
PREVIOUSLY ESTABLISHED BALANCE, BEGINNING OF YEAR	\$9 550 547	\$1 083 093	\$10 633 640	\$7 569 588	\$1 109 040	\$8 678 628
Adjustment to previous fiscal years (Note 3)				(40 937 591)		(40 937 591)
Credits granted by the Gouvernement du Québec to regularize the deficit (Note 3)				40 937 591		40 937 591
ADJUSTED BALANCE	<u>9 550 547</u>	<u>1 083 093</u>	<u>10 633 640</u>	<u>7 569 588</u>	<u>1 109 040</u>	<u>8 678 628</u>
OPERATIONS						
Excess (deficiency) of revenues over expenses before using the general reserve (Note 6)	2 584 100	(591 293)	1 992 807	3 504 971	(645 075)	2 859 896
Use of the general reserve (Note 7)	<u>(170 184)</u>		<u>(170 184)</u>	<u>(1 593 897)</u>		<u>(1 593 897)</u>
Net excess (deficiency) of revenues over expenses	2 413 916	(591 293)	1 822 623	1 911 074	(645 075)	1 265 999
Net investments in capital assets:						
Use of the general reserve (Note 7)	(377 477)	377 477		(247 666)	247 666	
From the fiscal year's operations	(371 825)	371 825		(245 427)	245 427	
Instalments on long-term debt and capital lease contracts:						
From the fiscal year's operations	(141 256)	141 256		(126 035)	126 035	
Transfers to the Professional Liability Fund and Fire and Theft Fund	<u>(750 000)</u>		<u>(750 000)</u>	<u>(700 000)</u>		<u>(700 000)</u>
	<u>773 358</u>	<u>299 265</u>	<u>1 072 623</u>	<u>591 946</u>	<u>(25 947)</u>	<u>565 999</u>
PRIVATE PRACTICE						
Excess revenues over expenses	<u>5 184 507</u>		<u>5 184 507</u>	<u>1 389 013</u>		<u>1 389 013</u>
BALANCE, END OF YEAR	<u>\$15 508 412</u>	<u>\$1 382 358</u>	<u>\$16 890 770</u>	<u>\$9 550 547</u>	<u>\$1 083 093</u>	<u>\$10 633 640</u>

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CHANGE IN THE CONSOLIDATED BALANCES OF THE PROFESSIONAL LIABILITY FUND
AND FIRE AND THEFT FUND
for the year ended March 31, 2007

	2007			2006
	Professional Liability Fund	Fire and Theft Fund	Total	Total
BALANCE, AT THE BEGINNING	\$1 000 000	\$500 000	\$1 500 000	\$800 000
Transfer from the General Fund's general reserve	500 000	250 000	750 000	700 000
BALANCE, END OF YEAR	<u>\$1 500 000</u>	<u>\$750 000</u>	<u>\$2 250 000</u>	<u>\$1 500 000</u>

COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED BALANCE SHEET
as at March 31, 2007

	General Fund	Professional Liability Fund	Fire and Theft Fund	2007	2006
ASSETS					
Current assets					
Cash on hand	\$13 274 819	\$25 126	\$12 243	\$13 312 188	\$11 001 285
Trust funds (Note 4)	496 388			496 388	553 104
Accounts receivable (Note 9)	46 441 368	166		46 441 534	45 749 508
Prepaid expenses	496 781			496 781	500 587
Advances on deferred salaries	202 364			202 364	96 229
Short-term investments (Note 10)		1 500 000	750 000	2 250 000	1 500 000
	<u>60 911 720</u>	<u>1 525 292</u>	<u>762 243</u>	<u>63 199 255</u>	<u>59 400 713</u>
Capital assets (Note 11)	<u>2 197 346</u>			<u>2 197 346</u>	<u>1 957 493</u>
	<u>\$63 109 066</u>	<u>\$1 525 292</u>	<u>\$762 243</u>	<u>\$65 396 601</u>	<u>\$61 358 206</u>
LIABILITIES					
Current liabilities					
Accounts payable (Note 12)	\$44 768 566	\$25 292	\$12 243	\$44 806 101	\$47 876 783
Deferred salaries	212 222			212 222	159 515
Amounts collected in advance (Note 13)	422 520			422 520	313 868
Short-term portion of long-term debt (Note 15)	115 601			115 601	108 556
	<u>45 518 909</u>	<u>25 292</u>	<u>12 243</u>	<u>45 556 444</u>	<u>48 458 722</u>
Deferred special grants for capital assets (Note 14)	381 675			381 675	652 946
LONG-TERM DEBT (Note 15)	<u>317 712</u>			<u>317 712</u>	<u>112 898</u>
	<u>46 218 296</u>	<u>25 292</u>	<u>12 243</u>	<u>46 255 831</u>	<u>49 224 566</u>
EQUITY					
Net assets invested in capital assets	1 382 358			1 382 358	1 083 093
Net appropriated assets of internal origin	<u>15 508 412</u>	<u>1 500 000</u>	<u>750 000</u>	<u>17 758 412</u>	<u>11 050 547</u>
	<u>16 890 770</u>	<u>1 500 000</u>	<u>750 000</u>	<u>19 140 770</u>	<u>12 133 640</u>
	<u>\$63 109 066</u>	<u>\$1 525 292</u>	<u>\$762 243</u>	<u>\$65 396 601</u>	<u>\$61 358 206</u>

On behalf of the Commission des services juridiques,
 Denis Roy, Administrator
 H          , Administrator

COMMISSION DES SERVICES JURIDIQUES**CONSOLIDATED STATEMENT OF CASH FLOWS**
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES (Note 8)		
Excess of revenues over expenses		
Operations	\$1 822 623	\$1 265 999
Private practice	<u>5 184 507</u>	<u>1 389 013</u>
	7 007 130	2 655 012
Amortization of capital assets	925 962	964 139
Amortization of deferred special grants for capital assets	(334 669)	(319 064)
Loss on sale of capital assets	14 895	3 093
Change in non-cash working capital items (Note 8)		
Operations	5 305 682	(2 055 607)
Private practice	<u>(9 009 360)</u>	<u>(811 041)</u>
Cash flows from operating activities	<u>3 909 640</u>	<u>436 532</u>
FINANCING ACTIVITIES		
Long-term debt	189 650	
Deferred special grants for capital assets	63 398	32 175
Long-term debt repayment	(25 780)	
Instalment on obligations under capital lease contracts	<u>(115 476)</u>	<u>(126 035)</u>
Cash flows from financing activities	<u>111 792</u>	<u>(93 860)</u>
INVESTMENT ACTIVITIES		
Amounts paid in trust	56 716	98 474
Acquisition of investments	(750 000)	(700 000)
Acquisition of capital assets	(1 020 474)	(535 787)
Transfer of capital assets	<u>3 229</u>	<u>1 250</u>
Cash flows from investment activities	<u>(1 710 529)</u>	<u>(1 136 063)</u>
NET VARIATION IN CASH ON HAND	2 310 903	(793 391)
CASH ON HAND, BEGINNING ON YEAR	<u>11 001 285</u>	<u>11 794 676</u>
CASH ON HAND, END O YEAR	<u>\$13 312 188</u>	<u>\$11 001 285</u>

Cash excludes amounts held in trust.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at March 31, 2007

1. IDENTIFICATION AND ACTIVITY SECTOR

The Commission des services juridiques was established under the Legal Aid Act.

2. MAIN ACCOUNTING POLICIES

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

This Fund is used to pay settlements resulting from liability lawsuits involving the network's lawyers and the Commission's commissioners.

c) Fire and Theft Fund

This fund is used to pay costs related to fire or theft in the network's premises.

d) Net assets allocated to the general reserve

The general reserve created by the Commission is used to carry out the Commission's obligations and commitments.

e) Accounting estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. The main elements estimated are the provisions for private practices' professional fees and contingencies. Real results may differ from these estimates.

f) Proceeds reporting

Regular Commission grants are posted to results for the fiscal year whose expenses they cover.

Special grants are posted to proceeds using the deferral method, which involves recording them as the various expenses are posted.

Special grants used to acquire capital assets are deferred and amortized at the same rate as the said capital assets.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

2. MAIN ACCOUNTING POLICIES (cont'd)

g) Private practice (s. 52)

Professional fees, legal fees and interest paid to private practice (s. 52) are recorded on an accrual basis and revenue is posted according to amounts authorized by the Gouvernement du Québec.

h) Contributory scheme

Revenues related to administrative expenses and other contributions by beneficiaries are reported on an accrual basis.

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, given the uncertainty surrounding their recovery.

j) Investments

Investments are recorded at acquisition cost.

k) Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method as follows:

Computer and office automation equipment	3 years
Office furniture and equipment	5 years
Leasehold improvements	Remainder of lease
Computer development	5 years

l) Prepaid lease inducement

The lease inducement for leasehold improvements is amortize in accordance with the straight-line method over the remainder of the lease.

m) Fund transfers

Accord to the Commission's resolutions, Fire and Theft Fund and Professional Liability Fund reserve must be \$750 000 (\$500 000 in 2006) and \$1 500 000 (\$1 000 000 in 2006) respectively. Any excess or deficiency of revenue over expenses must be transferred to (from) the General Fund.

n) Future fringe benefits

Commission and regional centre staff participate in one of the following defined-benefit plans administered by the Commission administrative des régimes de retraite et d'assurance (CARRA):

- Government and Public Employees Retirement Plan (RREGOP);
- Civil Service Superannuation Plan (CSSP);
- Pension Plan of Management Personnel (PPMP).

The Gouvernement du Québec is responsible for paying part or all of the benefits of these inter-enterprise retirement plans.

The Commission's contributions charged to the year-end statement total \$2 843 458 (2006: \$2 903 146).

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

3. CHANGE IN ACCOUNTING POLICY

In fiscal 2006, the Commission retroactively adopted figures for fiscal 2005, the accrual basis of accounting to post revenues from contributions, professional fees and disbursements by private practices, and accrued vacation time and wages payable. In the past, revenues from contributions, professional fees and disbursements by private practices, and accrued vacation time and wages were posted to results using the cash method. At March 31, 2006, this change resulted in a \$5 806 591 increase in grants receivable from the Gouvernement du Québec – operations; grants of \$35 131 000 receivable from the Gouvernement du Québec – private practice; wages and vacation time payable of \$7 720 442; professional fees and disbursements by private practices of \$35 137 000.

The cumulative effect of these adjustments on the opening balance of the general reserve totalled \$40 937 591 for the preceding fiscal year and received equivalent appropriations allocated by the Gouvernement du Québec.

These grants receivable are disclosed in Note 9.

4. RESTRICTIONS ON CASH USE

Certain community legal centre employees invoked a collective agreement clause enabling them to have amounts deducted at-source for future paid sabbaticals. The amounts are deposited in trust for this purpose.

5. OTHER REVENUES

	2007	2006
Operations		
Contributory scheme ^a	\$838 582	\$794 741
Bill for expenses	20 789	28 508
Reimbursement of legal aid costs	438 310	386 663
Interest	725 828	454 466
Other	26 647	164 582
Gain on sale of capital assets	5 891	2 170
Amortization of special deferred grants for capital assets	271 730	200 949
Net Professional Liability Fund and Fire and Theft Fund expenses	(80 739)	(11 656)
	<u>\$2 247 038</u>	<u>\$2 020 423</u>
Private practice (s. 52)		
Contributions from beneficiaries	<u>\$620 616</u>	<u>\$712 020</u>

a Effective January 1, 1997, certain beneficiaries are eligible for services under the Legal Aid Act for a fee.

Contributory scheme

	2007	2006
Contributions from beneficiaries	\$581 739	\$535 050
Administrative expenses	247 285	256 050
Interest	9 558	3 641
	<u>\$838 582</u>	<u>\$794 741</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2007

6. GENERAL RESERVE

Surplus revenues over expenses for the fiscal year include \$452 162 (2006: \$332 627) in excess Gouvernement du Québec grants for court fees on invoicing of these fees.

7. USE OF THE GENERAL RESERVE

The expenses and investments in capital assets for the year include the following amounts from the general reserve used through a resolution adopted by management:

	2007	2006
Cost of arbitration awards		\$1 204 670
Computer master plan		
Computer equipment and software	\$144 906	182 774
Professional services	11 881	11 729
Other expenses	13 397	9 700
Review of past salaries		185 024
Amounts posted to annual operating costs	170 184	1 593 897
Amounts invested in capital assets	377 477	247 666
	<u>\$547 661</u>	<u>\$1 841 563</u>

8. CASH FLOW INFORMATION

Changes in working capital items are:

	2007	2006
Operations		
Accounts receivable	\$5 114 565	\$2 039 986
Prepaid expenses	3 806	(55 959)
Advances on deferred salaries	(106 135)	(43 265)
Accounts payable	129 804	(2 569 768)
Deferred salaries	52 707	32 440
Amounts collected in advance	110 935	(1 459 041)
	<u>\$5 305 682</u>	<u>\$(2 055 607)</u>

	2007	2006
Private practice		
Accounts receivable	\$(5 806 591)	\$(35 131 000)
Accounts payable	(3 200 486)	35 097 274
Amounts collected in advance	(2 283)	(777 315)
	<u>\$(9 009 360)</u>	<u>\$(811 041)</u>

Cash flows for operations include interest payments of \$32 775 (2006: \$29 386).

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007**9. ACCOUNTS RECEIVABLE**

	2007	2006
Accrued interest	\$21 061	\$12 456
Advance to the Professional Liability Fund	25 292	5 901
Advance to the Fire and Theft Fund	12 643	2 951
Gouvernement du Québec grants		
Court fees	2 195 000	
Operations		10 564 991
Private practice	40 937 591	35 131 000
Special projects - one-time (Note 14)	3 192 514	
Other	57 433	32 209
	<u>\$46 441 534</u>	<u>\$45 749 508</u>

10. SHORT-TERM INVESTMENTS

	2007	2006
Professional Liability Fund		
Deposit certificates at 4.05% (2006: 3.60%), maturing in May 2007	<u>\$1 500 000</u>	<u>\$1 000 000</u>
Fire and Theft Fund		
Deposit certificates at 4.05% (2006: 3.60%), maturing in May 2007	<u>\$750 000</u>	<u>\$500 000</u>

11. CAPITAL ASSETS

	2007	2007	2006	2006
	Cost	Accumulated depreciation	Net value	Net value
CAPITAL ASSETS				
Computer and office automation equipment	\$4 328 718	\$3 331 756	\$996 962	\$1 090 332
Office furniture and equipment	1 623 953	958 693	665 260	662 232
Leasehold improvements	339 652	50 948	288 704	
	<u>6 292 323</u>	<u>4 341 397</u>	<u>1 950 926</u>	<u>1 752 564</u>
Capital assets acquired under capital lease contracts				
Office furniture and equipment	474 561	254 771	219 790	204 929
Computer and office automation equipment	201 598	174 968	26 630	
	<u>676 159</u>	<u>429 739</u>	<u>246 420</u>	<u>204 929</u>
	<u>6 968 482</u>	<u>4 771 136</u>	<u>2 197 346</u>	<u>1 957 493</u>
INTANGIBLE ASSETS				
Computer development	639 283	639 283		
	<u>\$7 607 765</u>	<u>\$5 410 419</u>	<u>\$2 197 346</u>	<u>\$1 957 493</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

12. ACCOUNTS PAYABLE

	2007	2006
Accounts payable and accrued liabilities	\$962 146	\$1 019 771
Accounts payable and accrued liabilities – attorneys in private practice	32 000 000	35 137 000
Advance from General Fund, interest-free	37 535	8 851
Salaries and at-source deductions	3 380 051	3 155 243
Accrued vacation time	6 683 531	6 462 032
Gouvernement du Québec – special projects (Note 14)		231 514
Court costs		
Operations	940 552	996 600
Private practice	802 286	865 772
	<u>\$44 806 101</u>	<u>\$47 876 783</u>

13. AMOUNTS COLLECTED IN ADVANCE

	2007	2006
Lease inducement	\$135 433	
Contributory scheme– permanent staff	100 338	\$124 836
Contributory scheme– private practice	186 749	189 032
	<u>\$422 520</u>	<u>\$313 868</u>

14. GRANTS FOR SPECIAL PROJECTS

The Commission received one-time subsidies for special projects.

The amounts received were used as follows:

	2007	2006
Amounts receivable (payable), beginning of year	\$(231 514)	\$1 156 353
Amounts used to finance special projects in the year	3 360 630	2 971 480
Amounts used to acquire capital assets	63 398	32 175
Amounts received		(4 391 522)
	<u>\$3 192 514</u>	<u>\$(231 514)</u>

Special projects for capital assets

	2007	2006
Deferred special grants for capital assets, beginning of year	\$652 946	\$939 835
Special grants used to acquire capital assets	63 398	32 175
Amortization posted to revenues for the year	(334 669)	(319 064)
	<u>\$381 675</u>	<u>\$652 946</u>

COMMISSION DES SERVICES JURIDIQUESNOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007**15. LONG-TERM DEBT**

	<u>2007</u>	<u>2006</u>
Borrowing, repayable in monthly instalments \$3 539, capital and interest, 4.54%, maturing in June 2011	\$163 870	
Commitments under capital leases maturing from 2006 to 2011	<u>269 443</u>	<u>\$221 454</u>
	433 313	221 454
Current portion	<u>115 601</u>	<u>108 556</u>
	<u><u>\$317 712</u></u>	<u><u>\$112 898</u></u>

Capital repayments for the long-term debt over the coming five fiscal years break down as:

2008	\$35 768
2009	37 426
2010	39 161
2011	40 976
2012	<u>10 539</u>
	<u><u>\$163 870</u></u>

Amounts payable and balance of obligations are:

2008	\$105 112
2009	84 800
2010	55 826
2011	43 101
2012	<u>24 361</u>
	313 200
Amount representing interest at rates varying from 4.54% to 14.21%	<u>43 757</u>
Balance of obligations	<u><u>\$269 443</u></u>

16. COMMITMENTS**Lease**

The Commission and the community legal centres are committed under leases for office space and equipment which call for lease payments of \$19 643 581. The minimum lease payments for the next five fiscal years are:

2008	\$5 896 214
2009	5 144 880
2010	3 460 795
2011	2 246 124
2012	1 478 241

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2007

17. CONTINGENCIES AND SUBSEQUENT EVENT

- a) Proceedings have been instituted against certain 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 posted to period costs. This amount pertains to professional lawsuits for which a professional liability fund has been provided for in the financial statements.

Currently, the Professional Liability Fund shows a \$1 500 000 reserve. Given the risk of legal proceedings, the fund might post a deficiency. However, management deems that these expenses would be funded from additional government grants.

- b) At fiscal year-end, talks were under way regarding the pay equity file. It is currently impossible to determine the amount to be paid retroactively. Expenses related to these items will be posted when known.

Management deems that these expenses will be financed from additional government grants.

- c) During the fiscal year and thereafter, grievances targeting reclassification of support staff positions were submitted. It is currently impossible to foresee the outcome of these grievances and the amount that might have to be paid. Expenses related to these items will be posted when known.

Management deems that these expenses will be financed from additional government grants.

18. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission carried out the following transactions with Gouvernement du Québec-controlled companies. It posted rental payments of \$5 149 651 (2006: \$5 181 583) payable to the Société immobilière du Québec and court costs of \$1 558 141 (2006: \$1 671 618) payable to the Minister of Justice du Québec, \$4 792 (2006: \$4 291) to the register fund, \$36 539 (2006: \$35 845) to the property information fund and \$143 366 (2006: \$150 619) to the director of civil status. A balance of \$1 742 838 (2006: \$1 862 372) for court fees was payable at March 31, 2007 as disclosed in Note 12.

Further, the Commission received Gouvernement du Québec grants totalling \$88 775 230 (2006: \$77 105 100) for court operations and fees, and \$46 653 300 (2006: \$47 653 300) for private practice during the fiscal year.

These operations are measured at exchange value, which is the value of consideration agreed to by the parties.

19. FINANCIAL INSTRUMENTS

The fair value of cash, trust funds, receivables, advances on deferred salaries, short-term investments, accounts payable and deferred salaries 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 resembles book value because rates resemble market rates.

20. COMPARATIVE FIGURES

For comparison purposes, certain figures in the consolidated financial statements for the previous fiscal year were reclassified.

COMMISSION DES SERVICES JURIDIQUESSTATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION
for the year ended March 31, 2007**EXPENSES**

	<u>2007</u>	<u>2006</u>
OPERATIONS		
Administration		
Rent, taxes and permits	\$6 111 096	\$6 207 337
Travelling expenses	959 542	1 017 243
Amortization of capital assets	863 023	846 024
Professional services	704 278	650 002
Telecommunication	659 570	695 662
Office supplies	532 385	562 905
Professional assessments	461 429	442 083
Library	417 726	413 653
Maintenance and repairs	411 045	383 665
Professional training	366 756	336 170
Postage	326 906	327 358
Other administrative expenses	305 472	313 274
Office furniture and equipment	285 799	341 049
Directors' meeting	94 257	102 964
Interest on obligations resulting from		
capital lease contracts	32 775	29 386
Loss on sale of capital assets	20 786	5 263
Information	16 868	14 930
Electricity	3 545	3 224
	<u>12 573 258</u>	<u>12 692 192</u>
Salaries and fringe benefits		
Attorneys	39 908 315	39 796 549
Other	32 348 544	21 836 186
	<u>72 256 859</u>	<u>61 632 735</u>
Legal fees		
Free services		
Civil	3 104 718	3 137 891
Criminal	344 719	382 496
	<u>3 449 437</u>	<u>3 520 387</u>
Contributory scheme		
Civil	98 880	92 034
Criminal	18 925	17 963
	<u>117 805</u>	<u>109 997</u>
	<u>3 567 242</u>	<u>3 630 384</u>
	<u>\$88 397 359</u>	<u>\$77 955 311</u>

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2007

EXPENSES (cont'd)

	2007	2006
PRIVATE PRACTICE (s. 52)		
Free services		
Professional fees		
Civil	\$18 074 889	\$19 979 697
Criminal	17 164 199	19 585 796
Notarial	88 407	73 600
	<u>35 327 495</u>	<u>39 639 093</u>
Legal fees ¹		
Civil	4 099 048	4 585 298
Criminal	1 587 457	1 630 659
Notarial	45 571	42 647
	<u>5 732 076</u>	<u>6 258 604</u>
Other expenses	90 441	52 546
Interest	7 292	5 346
	<u>97 733</u>	<u>57 892</u>
	<u>41 157 304</u>	<u>45 955 589</u>
Paid service		
Professional fees		
Civil	1 169 101	1 233 656
Criminal	209 736	266 885
Notarial	9 010	9 747
	<u>1 387 847</u>	<u>1 510 288</u>
Legal fees ²		
Civil	280 621	324 041
Criminal	63 707	50 391
Notarial	2 216	1 770
	<u>346 544</u>	<u>376 202</u>
	<u>1 734 391</u>	<u>1 886 490</u>
	<u>\$42 891 695</u>	<u>\$47 842 079</u>

1 Includes legal fees of \$4 434 841 (2006: \$4 774 418) and other fees of \$1 351 652 (2006: \$1 484 186).

2 Includes legal fees of \$293 116 (2006: \$310 678) and other fees of \$56 976 (2006: \$65 524).

COMMISSION DES SERVICES JURIDIQUESSTATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2007**CONSOLIDATED RESULTS – SPECIAL PROJECTS**

	2007	2006
REVENUES (Note 14)		
Special grants – charges	\$3 360 630	\$2 971 480
Amortization of deferred special grants for capital assets	62 939	118 115
Self-generated revenue	200	3 610
	<u>3 423 769</u>	<u>3 093 205</u>
EXPENSES		
Administration		
Amortization of capital assets	62 939	118 115
Rent, taxes and permits	78 369	113 124
Travelling expenses	77 323	57 658
Telecommunication	54 238	50 840
Office furniture and equipment	49 452	45 068
Office supplies	25 401	37 683
Professional assessments	32 065	30 180
Maintenance and repairs	47 527	26 206
Professional services	13 133	15 951
Library	11 339	14 674
Other administrative expenses	18 716	14 242
Professional training	14 265	7 068
Postage	3 694	4 265
Information	1 818	
	<u>490 279</u>	<u>535 074</u>
Salaries and fringe benefits		
Attorneys	1 997 933	1 983 065
Other	463 023	567 349
	<u>2 460 956</u>	<u>2 550 414</u>
PRIVATE PRACTICE (s. 52)		
Free services		
Professional fees		
Civil	201 008	
Criminal	189 737	
Notarial	995	
	<u>391 740</u>	
Legal fees		
Civil	39 332	459
Criminal	22 519	7 258
Notarial	100	
	<u>61 951</u>	<u>7 717</u>
Amounts carried forward	<u>\$453 691</u>	<u>\$7 717</u>

COMMISSION DES SERVICES JURIDIQUESSTATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2007**CONSOLIDATED RESULTS – SPECIAL PROJECTS (cont'd)**

	<u>2007</u>	<u>2006</u>
Amounts brought forward	<u>\$453 691</u>	<u>\$7 717</u>
Contributory scheme		
Professional fees		
Civil	12 709	
Criminal	2 512	
Notarial	<u>76</u>	
	----- 15 297	-----
Legal fees		
Civil	3 065	
Criminal	469	
Notarial	<u>12</u>	
	----- 3 546	-----
	<u>18 843</u>	<u> </u>
	<u>472 534</u>	<u>7 717</u>
	<u>3 423 769</u>	<u>3 093 205</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u> </u></u>	<u><u> </u></u>

COMMISSION DES SERVICES JURIDIQUES**AUDITORS' REPORT**

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, 2007 and the consolidated statements of results, change in net assets and cash flows of the General Fund, changes in the consolidated balances of the Professional Liability Fund and Fire and Theft Fund for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted auditing standards.

Harel Drouin – PKF, S.E.N.C.R.L.
Chartered Accountants

Montréal, May 25, 2007

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE
(R.S.Q., c. A-29.011)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Parental Insurance Fund contribution	21 353	1 291
Gouvernement du Québec – Compensatory reimbursement for provision for sick leave and vacation time	4	114
Interest income	61	3
	<u>21 418</u>	<u>1 408</u>
EXPENSES		
Administrative expenses (Note 3)	1 682	1 193
Costs related to QPIP* administration by the Ministère l'Emploi et de la Solidarité sociale (Note 4)	10 532	
Costs related to computer support activities by the Ministère de l'Emploi et de la Solidarité sociale (Note 4)	3 021	
Costs related to collection of contributions by Revenu Québec (Note 5)	2 243	215
Bank charges related to QPIP benefit payment by the Ministère des Finances	47	
Amortization		
Intangible assets	2 222	
Start-up costs	1 315	
Interest on long-term debt	356	
	<u>21 418</u>	<u>1 408</u>
EXCESS REVENUES OVER EXPENSES AND CUMULATED SURPLUS, END OF YEAR	<u><u> </u></u>	<u><u> </u></u>

The notes are an integral part of these financial statements.

* Québec Parental Insurance Plan (QPIP)

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	2 247	4 486
Claims (Note 6)	<u>1 770</u>	<u>117</u>
	4 017	4 603
Capital assets (Note 7)	121	108
Tangible assets (Note 8)	13 833	10 287
Start-up costs (Note 9)	<u>6 939</u>	<u>4 901</u>
	<u>24 910</u>	<u>19 899</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2 788	3 991
Parental Insurance Fund advance, interest-free, no terms of repayment	10 100	3 708
Gouvernement du Québec advance bearing interest at the prime rate, no terms of repayment		1 683
Provision for vacation time (Note 11)	73	66
Portion of the long-term debt maturing in the short term (Note 12)	<u>3 481</u>	<u>2 753</u>
	16 442	12 201
Provision for sick leave (Note 11)	185	164
Long-term debt (Note 12)	<u>8 283</u>	<u>7 534</u>
	<u>24 910</u>	<u>19 899</u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Denis Latulippe
President-CEO

Marie-Josée Le Blanc
Chair, Planning and Auditing Committee

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
Items not affecting cash flows:		
Amortization		
Capital assets	31	7
Intangible assets	2 222	
Start-up costs	1 315	
Change in non-cash items related to operations (Note 13)	<u>(4 330)</u>	<u>554</u>
Cash flows from operating activities	<u>(762)</u>	<u>561</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(44)	(53)
Acquisition of tangible assets	(36)	
Increase in start-up costs	<u>(3 353)</u>	<u>(514)</u>
Cash flows from investment activities	<u>(3 433)</u>	<u>(567)</u>
FINANCING ACTIVITIES		
Net change in advances	4 709	4 492
Repayment of the long-term debt	<u>(2 753)</u>	
Cash flows from financing activities	<u>1 956</u>	<u>4 492</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2 239)</u>	<u>4 486</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 486</u>	
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>2 247</u></u>	<u><u>4 486</u></u>

The notes are an integral part of these financial statements.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS

as at December 31, 2006

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FUNDING

Constitution

The Conseil de gestion de l'assurance parentale (Conseil), a legal person under the Civil Code, created on January 10, 2005 under the Act respecting parental insurance (R.S.Q., A-29.011), is mandated, under this Act, to manage the Québec Parental Insurance Plan (QPIP) and, as a trustee, to administer the Parental Insurance Fund (Fund). The plan has been in effect since January 1, 2006.

Purpose

The plan is designed to provide financial support to employees and self-employed workers to enable them to recover physically from childbirth and allow them to care for their newborn or adopted child. It grants maternity, paternity and parental benefits when a child is born, and adoption benefits.

The Conseil is the trustee of the Fund, a social utility trust set up on June 17, 2005, whose asset base is essentially used, under section 115.4 of the Act respecting parental insurance, to pay benefits to anyone eligible under the Act and to pay costs incurred by the Conseil in exercising its trustee duties.

The Minister of Employment and Social Solidarity (MESS) administers the Plan in keeping with section 80 of the Act respecting parental insurance.

Funding

The Conseil's main funding source consists of Fund contributions from contributions collected in keeping with the Act respecting parental insurance to fund the Plan. Amounts available to the Conseil must be used solely to apply its incorporating Act and to pay its obligations.

The Minister of Revenue collects Plan contributions in keeping with Chapter IV of the Act respecting parental insurance and section 2 of the Act respecting the Ministère du Revenu (R.S.Q., c. M-31).

2. ACCOUNTING POLICIES

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances, where applicable, minus outstanding cheques.

Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method over their expected service life and the following annual rates:

Office furniture and equipment	20.00%
Leasehold improvements	20.00%
Computer equipment	33.33%

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

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets, comprising computer development and development of informational assets, are recorded at cost and amortized over their expected service life in accordance with the straight-line method and an annual rate of 20%.

They undergo a depreciation test annually or more frequently if events or changes in the situation indicate that their value may have dropped.

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

Start-up costs

Start-up costs comprise the costs inherent in the staff deployed and work done to prepare, implement and finalize Plan operations. In addition to direct costs, they include interest payments and part of the overall and administrative costs. Start-up costs are amortized in accordance with the straight-line method over a five-year period beginning January 1, 2006, the date Plan activities began.

They undergo a depreciation test annually or more frequently if events or changes in the situation indicate that their value may have dropped.

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

Pension plan

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

3. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	955	669
Salaries and fringe benefits for provisions for sick leave and vacation time following the arrival of employees		199
Support and administrative services of the Ministère de l'Emploi et de la Solidarité sociale	378	142
Professional services	140	49
Training	14	4
Travelling expenses	13	11
Rent	73	31
Materials, supplies and courier services	16	28
Telephone and Internet	15	17
Amortization of capital assets	31	7
Interest and bank charges	7	21
Other	40	15
	<u>1 682</u>	<u>1 193</u>

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

4. COSTS RELATED TO MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE ACTIVITIES

Under the Act respecting parental insurance, the Minister of Employment and Social Solidarity is responsible for administering the QPIP. This mandate requires him to take charge of all activities associated with the Plan's administration related to eligibility for and payment of QPIP benefits.

Plan administration costs posted to the fiscal year's results totalled \$10 532 116 and computer support costs totalled \$3 020 816.

5. COSTS RELATED TO CONTRIBUTION COLLECTION BY REVENU QUÉBEC

Under the Act respecting parental insurance, the Minister of Revenue is responsible for collecting Plan contributions. This mandate requires him to subtract collection costs and costs related to accounts receivable that he must cover from the contributions remitted to the Conseil. These costs are determined by order-in-council based on the expenses actually incurred by Revenu Québec.

Contribution collection costs posted to the fiscal year's results totalled \$2 243 202 (2005: \$215 476) and include only administrative costs.

6. ACCOUNTS RECEIVABLE

	2006	2005
Accrued interest	6	3
Gouvernement du Québec	3	114
Ministère de l'Emploi et de la Solidarité sociale	1 761	
	<u>1 770</u>	<u>117</u>

7. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Office furniture and equipment	45	10	35
Leasehold improvement	84	15	69
Computer equipment	30	13	17
	<u>159</u>	<u>38</u>	<u>121</u>
			<u>108</u>

8. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Computer development (Note 15)	16 019	2 220	13 799
Informational assets	36	2	34
	<u>16 055</u>	<u>2 222</u>	<u>13 833</u>
			<u>10 287</u>

Computer development carried out by the Ministère de l'Emploi et de la Solidarité sociale at a cost of \$1 502 367 (2005: \$10 286 848) was in progress as at December 31, 2006 and was not amortized.

Interest capitalized during the fiscal year totalled \$74 440.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

9. START-UP COSTS

	2006		2005
	Cost	Accumulated depreciation	Net
Start-up costs	8 254	1 315	6 939
			4 901

The Ministère de l'Emploi et de la Solidarité sociale and Revenu Québec incurred start-up costs of \$2 711 048 (2005: \$3 966 414) and \$642 196 (2005: \$934 781) respectively during the fiscal year.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Suppliers and accrued expenses	113	164
Ministère de l'Emploi et de la Solidarité sociale		3 191
Ministère de l'Emploi et de la Solidarité sociale information technologies fund	1 756	
Ministère des Finances	42	
Revenu Québec	877	636
	2 788	3 991

11. FUTURE FRINGE BENEFITS**Pension plans**

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

The Conseil's contributions charged to the year-end statement total \$42 573 (2005: \$28 440). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2006		2005
	Sick leave	Vacation time	Total
Balance, beginning of year	164	66	230
Annual expenses			
Increase due to arrival of employees			199
Increase attributable to fiscal year	22	74	96
Amount used	(1)	(67)	(68)
Balance, end of year	185	73	258
			230

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

12. LONG-TERM DEBT

	2006	2005
Ministère de l'Emploi et de la Solidarité sociale information technologies fund (Note 15)		
Capital lease contract for computer development, 4%, repayable in one instalment of \$3 850 087 in April 2007, Followed by four further annual instalments as of April 1, 2008	11 764	10 287
Minus: Portion of long-term debt maturing in the short term	3 481	2 753
	<u>8 283</u>	<u>7 534</u>
Minimum future payments required are:		
2007		3 850
2008		3 260
2009		2 948
2010		2 281
2011		463
		<u>12 802</u>
Interest		<u>(1 038)</u>
		<u>11 764</u>

13. CASH FLOWS

	2006	2005
Change in non-cash items related to operations		
Accounts receivable	(1 653)	(117)
Accounts payable and accrued liabilities	(2 705)	441
Provision for vacation time	7	66
Provision for sick leave	21	164
	<u>(4 330)</u>	<u>554</u>
Interest paid	<u>363</u>	<u></u>

Intangible assets were acquired during the fiscal year for \$5 732 129, \$4 229 762 was acquired under a capital lease contract.

As at December 31, 2006, the item "Accounts payable and accrued liabilities" included acquisitions of intangible assets for \$1 502 367.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

14. FINANCIAL INSTRUMENTS

Fair value

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 long-term debt is evaluated by discounting future cash flows using an interest rate that applies to borrowings whose conditions and maturity dates resemble those of the Conseil. The fair value is evaluated at \$11 763 732 (2005: \$10 286 848).

Interest rate-related risk

The Conseil is exposed to an interest rate-related risk linked to rate fluctuations on the market, which could affect cash flows by increasing or decreasing the contribution to payment of interest on Gouvernement du Québec advances.

The long-term debt bears interest at a fixed rate. Consequently, the Conseil's risk is minimal.

15. COMMITMENTS

MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE (MESS)

Plan administration

Under section 81 of the Act respecting parental insurance, the Conseil signed an agreement with the Minister of Employment and Social Solidarity for the administration of Plan activities related to eligibility and benefits payments by the MESS. Under this agreement, the Conseil commits to paying the expenses actually incurred by the MESS. This agreement is valid for one year and runs from January 1, 2006 to March 31, 2007. At term, it becomes renewable annually. Costs payable over the next fiscal year are estimated at:

2007	\$4 259 000

Under this agreement, the Conseil committed to paying all of the costs incurred by the MESS' information technologies fund (FTI) for computer system development in order to carry out Plan administration activities. According to the FTI, total costs upon completion of work scheduled for 2009 are estimated at \$26 million, \$16 million of which has been incurred as at December 31, 2006 and posted to the financial statements. Payments related to this agreement run until April 2013.

Administrative support and consulting services

Under section 82 of the Act respecting parental insurance, the Conseil signed an agreement with the Minister of Employment and Social Solidarity for administrative support and consulting services. This agreement is valid for one year from January 1, 2006 to March 31, 2008. At term, it becomes renewable for three-year period. Costs payable over the next two fiscal years are:

2007	\$215 000
2008	54 000

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

15. COMMITMENTS (cont'd)**REVENU QUÉBEC****Reimbursement of system development costs for Plan contribution collection activities**

For Revenu Québec's contribution collection activities, the Conseil committed, over a five-year period beginning in April 2007, to paying systems user fees to the latter to offset the costs incurred by Revenu Québec. At December 31, 2006, the costs incurred by Revenu Québec totalled approximately \$1 300 495 (2005: \$611 000).

16. RELATED PARTY TRANSACTIONS

The Conseil is a related party, in the capacity of trustee, to the Parental Insurance Fund and has carried out no transactions with this related party except in the normal course of business and under normal business conditions. These related party transactions, recorded at exchange value, are presented in the body of the financial statements.

In addition to the related party transactions disclosed in its financial statements and measured 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.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

MANAGEMENT'S REPORT

The financial statements of the Commission des normes du travail were prepared by management, which is responsible for their preparation, presentation, data comprehensiveness and reliability and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the planning and auditing committee. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

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

For the Conseil de gestion de l'assurance parentale,
Denis Latulippe
President-CEO

Étienne Sabourin, CA, MBA
Financial management

Québec, June 8, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Conseil de gestion de l'assurance parentale as at December 31, 2006 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Conseil's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Conseil's financial position as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 8, 2007

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC
(R.S.Q., c. C-57.02)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Gouvernement du Québec subsidies		
Financial assistance	\$77 666 796	\$67 147 448
Administration	5 928 500	5 704 137
	<u>83 595 296</u>	<u>72 851 585</u>
Interest on short-term investments	1 165 346	638 705
	<u>84 760 642</u>	<u>73 490 290</u>
EXPENSES		
Financial assistance granted		
Theatre	23 326 028	20 882 655
Circus arts	1 015 398	780 100
Music	21 203 368	19 555 326
Visual and media arts	12 862 510	11 968 407
Dance	10 181 575	8 930 274
Literature	3 234 112	3 080 856
Multidisciplinary arts	1 163 317	1 282 377
Other activities	1 395 148	779 879
Other clientele (MCCCCF and SODEC) *	3 840 750	
	<u>78 222 206</u>	<u>67 259 874</u>
Cancellation of financial assistance granted in previous years	(103 441)	(160 000)
	<u>78 118 765</u>	<u>67 099 874</u>
Interest on long-term debt	24 412	49 460
Administrative expenses (Note 3)	6 621 855	6 160 585
	<u>84 765 032</u>	<u>73 309 919</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(4 390)	180 371
SURPLUS, BEGINNING OF YEAR	275 948	95 577
SURPLUS, END OF YEAR	<u>\$271 558</u>	<u>\$275 948</u>

The notes are an integral part of these financial statements.

* Ministère de la Culture, des Communications et de la Condition féminine (MCCCCF), Société de développement des entreprises culturelles (SODEC)

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$1 253 794	\$1 166 894
Short-term investments at 4.31%, maturing April 27, 2007	10 541 092	2 991 605
Accounts receivable	37 083	9 352
Gouvernement du Québec subsidies receivable	544 442	1 864 731
Prepaid expenses	34 103	29 878
	<u>12 410 514</u>	<u>6 062 460</u>
Gouvernement du Québec subsidies receivable		400 000
Capital assets (Note 4)	85 418	93 085
Intangible assets (Note 5)	<u>76 271</u>	<u>78 939</u>
	<u>\$12 572 203</u>	<u>\$6 634 484</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$227 853	\$339 361
Financial assistance payable	10 047 922	3 283 830
Deferred Gouvernement du Québec subsidies	630 800	927 000
Portion of long-term debt maturing in the short term	400 000	428 610
	<u>11 306 575</u>	<u>4 978 801</u>
Long-term debt (Note 7)		400 000
Provision for sick leave and vacation time (Note 8)	<u>994 070</u>	<u>979 735</u>
	<u>12 300 645</u>	<u>6 358 536</u>
CUMULATED SURPLUS	<u>271 558</u>	<u>275 948</u>
	<u>\$12 572 203</u>	<u>\$6 634 484</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 QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Receipts:		
Government subsidies	\$85 019 385	\$73 630 786
Interest received	1 140 939	639 752
Disbursements:		
Financial assistance granted	(71 354 673)	(67 338 169)
Suppliers and staff	(6 596 729)	(5 868 021)
Interest paid	<u>(35 360)</u>	<u>(60 613)</u>
Net receipts for operating activities	<u>8 173 562</u>	<u>1 003 735</u>
INVESTMENT ACTIVITIES		
Disbursements for investment activities:		
Acquisition of capital assets	(58 449)	(30 887)
Acquisition of intangible assets	<u>(50 116)</u>	<u>(51 100)</u>
	<u>(108 565)</u>	<u>(81 987)</u>
FINANCING ACTIVITIES		
Disbursements for financing activities:		
Repayment of long-term debt	<u>(428 610)</u>	<u>(465 508)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7 636 387	456 240
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 158 499</u>	<u>3 702 259</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 9)	<u>\$11 794 886</u>	<u>\$4 158 499</u>

The notes are an integral part of these financial statements.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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 Conseil's goal is to support creation, experimentation and production in all of Québec's regions 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 relève du Bas-Saint-Laurent pour les arts et les lettres", "Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres", "Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-nationale", and "Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie".

2. ACCOUNTING POLICIES

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

The Conseil's accounts do not include those of the trust funds.

The Conseil applies the deferral method to post contributions.

Cash and cash equivalents

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

Short-term investment

Short-term investments are recorded at the lesser of cost or market value.

Pension plans

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

Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method over their estimated service life as follows:

Furniture and audiovisual equipment	5 years
Computer equipment and development	3 years
Leasehold improvements	Term of lease

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

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets, comprising computer and software development, are recorded at cost and amortized over their expected service life, i.e. 3 years, in accordance with the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that it may not be possible to recover their book value.

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

Financial assistance granted

Financial assistance granted is reported when authorized and when the beneficiary meets the eligibility criteria.

Gouvernement du Québec subsidy reporting

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.

Investment income

Investment operations are recorded on the date of the transaction and the resulting revenues are reported in accordance with the accrual method. Interest income is recorded based on the number of days the investment was held in the fiscal year.

3. ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	\$5 053 898	\$4 569 389
Professional, administrative, and other services	205 201	292 091
Transportation and communications	571 738	496 805
Rent	531 468	524 608
Materials and supplies	122 873	101 257
Maintenance and repairs	17 777	12 911
Amortization of capital assets	66 116	103 341
Amortization of intangible assets	52 784	60 183
	<u>\$6 621 855</u>	<u>\$6 160 585</u>

4. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Furniture	\$42 998	\$31 573	\$11 425	\$9 367
Audiovisual equipment	33 568	14 327	19 241	25 955
Computer equipment	250 799	196 047	54 752	32 955
Leasehold improvements	360 355	360 355		24 808
	<u>\$687 720</u>	<u>\$602 302</u>	<u>\$85 418</u>	<u>\$93 085</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. INTANGIBLE ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Computer and software development	<u>\$368 467</u>	<u>\$292 196</u>	<u>\$76 271</u>
			<u>\$78 939</u>

6. BANK BORROWING

Under a borrowing order, the Conseil is authorized to contract short-term borrowings up to \$1 000 000, by October 31, 2009, from financial institutions or the Gouvernement du Québec's Financing Fund. At March 31, 2006 and March 31, 2007, no bank borrowing had been contracted.

7. LONG-TERM DEBT

	2007	2006
Borrowing from the Société immobilière du Québec, 6.68%, repayable in monthly instalments of \$5 818, matured in August 2006		\$28 610
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 5.394% repayable in annual instalments of \$400 000 until April 2, 2007 with the first capital and interest payment guaranteed by a moveable hypothec without delivery on the amount of the subsidy foreseen for the repayment of this borrowing	<u>\$400 000</u> 400 000	<u>800 000</u> 828 610
Minus: Portion maturing in the short term	<u>400 000</u>	<u>428 610</u>
		<u>\$400 000</u>

8. FUTURE FRINGE BENEFITS**Pension plans**

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

The Conseil's contributions charged to the year-end statement totalled \$208 089 (2006: \$209 402). Its liability towards these Government plans is restricted to its employer contributions.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**8. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave and vacation time**

	2007		2006
	Sick leave	Vacation time	Total
Balance, beginning of year	\$516 593	\$463 142	\$979 735
Annual expenses	161 241	396 333	557 574
Benefits paid during the year	(181 075)	(362 164)	(543 239)
Balance, end of year	<u>\$496 759</u>	<u>\$497 311</u>	<u>\$994 070</u>

9. CASH FLOWS

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

	2007	2006
Cash on hand	\$1 253 794	\$1 166 894
Short-term investments	<u>10 541 092</u>	<u>2 991 605</u>
	<u>\$11 794 886</u>	<u>\$4 158 499</u>

10. TRUST FUNDS**Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres**

The Conseil is the fund trustee. It pays amounts to professional artists and writers and young artists' and writers' groups in the Bas-Saint-Laurent region according to the terms, conditions and procedures in effect.

The agreement signed in December 2002 by the Conseil, the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil régional de la Culture du Bas-Saint-Laurent, whose property and assets, rights and obligations were transferred in 2004 to the Conférence régionale des élus du Bas-Saint-Laurent, expired on March 31, 2005, but was renewed in 2006-2007.

Under this agreement, the Commission jeunesse du Bas-Saint-Laurent committed to paying the Conférence régionale des élus du Bas-Saint-Laurent \$90 000 over three years at a rate of \$30 000 per year for 2006-2007, 2007-2008 and 2008-2009. The Conférence régionale des élus du Bas-Saint-Laurent committed to paying the amounts received from the Commission jeunesse du Bas-Saint-Laurent as well as \$60 000 at a rate of \$20 000 per year, to the Conseil. The Conférence régionale des élus du Bas-Saint-Laurent pays the Conseil \$50 000 for each of these years.

Balance Sheet

as at March 31, 2007

	2007	2006
Assets		
Cash on hand	\$1 523	\$1 128
Accrued interest	5	150
Contribution receivable	<u>50 000</u>	
	<u>\$1 528</u>	<u>\$1 278</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

10. TRUST FUNDS (cont'd)

Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres (cont'd)

Balance Sheet (cont'd) as at March 31, 2007

	2007	2006
Liabilities		
Financial assistance payable	\$50 000	
Fund balance	1 528	\$1 278
	<u>\$51 528</u>	<u>\$1 278</u>

Changes in Fund balance for the year ended March 31, 2007

	2007	2006
Fund balance, beginning of year	\$1 278	\$664
Increase		
Contributions	50 000	50 000
Interest	250	614
	<u>51 528</u>	<u>51 278</u>
Decrease		
Contributions granted	50 000	50 000
Fund balance, end of year	<u>\$1 528</u>	<u>\$1 278</u>

Trust Fund – Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres

The Conseil is the fund trustee. It pays amounts to professional artists and writers and artists' and writers' groups in the Lanaudière region according to the terms, conditions and procedures in effect.

The agreement signed in March 2003 by the Conseil, the Conseil régional de concertation et de développement de Lanaudière, whose property and assets, rights and obligations were transferred in 2004 to the Conférence régionale des élus de Lanaudière, expired on March 31, 2005. It was not renewed in 2006-2007 but is currently in the renewal process.

The Conseil and the Conférence régionale des élus de la Lanaudière will agree on how to use the additional 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, 2007

10. TRUST FUNDS (cont'd)**Trust Fund – Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres (cont'd)****Balance Sheet**

as at March 31, 2007

	2007	2006
Assets		
Cash on hand	\$174	\$35
Accrued interest		46
	<u>\$174</u>	<u>\$81</u>
Liabilities and Fund balance		
	<u>\$174</u>	<u>\$81</u>
	<u>\$174</u>	<u>\$81</u>

Changes in Fund balance

for the year ended March 31, 2007

	2007	2006
Fund balance, beginning of year	\$81	\$27
Increase		
Contribution		30 000
Interest	93	54
	<u>174</u>	<u>30 081</u>
Decrease		
Contribution granted		30 000
Fund balance, end of year	<u>\$174</u>	<u>\$81</u>

Trust Fund – Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-Nationale

The Conseil is the fund trustee. It pays amounts to professional artists and writers and young artists' and writers' groups in the Capitale-Nationale region according to the terms, conditions and procedures in effect.

An agreement was signed in April 2006 by the Conseil, the Conférence régionale des élus de la Capitale-Nationale and one of its constituents, the Forum jeunesse de la région de Québec.

Under this agreement, the Conférence régionale des élus de la Capitale-Nationale committed to paying the Conseil \$160 000 over three years, with \$60 000 coming from the Forum jeunesse de la région de Québec, at a rate of \$53 000 for 2006-2007, \$53 000 for 2007-2008 and \$54 000 for 2008-2009.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-Nationale (cont'd)****Balance Sheet**

as at March 31, 2007

	2007
Assets	
Cash on hand	\$2 470
Accrued interest	12
	<u>\$2 482</u>
Liabilities	
Financial assistance payable	\$1 287
Amount to be repaid to the Conseil	1 000
Fund balance	<u>195</u>
	<u>\$2 482</u>

Changes in Fund balance

for the year ended March 31, 2007

	2007
Fund balance, beginning of year	
Increase	
Contribution	\$53 000
Interest	194
	<u>53 194</u>
Decrease	
Contribution granted	52 874
Other operating costs	125
	<u>53 000</u>
Fund balance, end of year	<u>\$195</u>

Trust Fund – Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie

The Conseil is the fund trustee. It pays amounts to professional artists and writers and artists' and writers' groups in the Estrie region according to the terms, conditions and procedures in effect.

An agreement was signed in September 2006 by the Conseil, the Conférence régionale des élus de l'Estrie and the Conseil de la culture de l'Estrie.

Under this agreement, the Conférence régionale des élus de l'Estrie committed to paying the Conseil de la Culture de l'Estrie \$120 000 over three years at a rate of \$40 000 per year for 2006-2007, 2007-2008 and 2008-2009. The Conseil de la Culture de l'Estrie committed to paying the amounts received from the Conférence régionale des élus de l'Estrie as well as \$30 000 at a rate of \$10 000 per year to the Conseil. The Conseil de la culture de l'Estrie pays the Conseil \$50 000 for each of these years.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie (cont'd)****Balance Sheet**

as at March 31, 2007

	<u>2007</u>
Assets	
Cash on hand	\$49 993
Accrued interest	<u>170</u>
	<u>\$50 163</u>
Liabilities	
Financial assistance payable	\$50 000
Fund balance	<u>163</u>
	<u>\$50 163</u>

Changes in Fund balance

for the year ended March 31, 2007

	<u>2007</u>
Fund balance, beginning of year	
Increase	
Contribution	\$50 000
Interest	<u>291</u>
	50 291
Decrease	
Contribution granted	50 000
Other operating costs	<u>128</u>
Fund balance, end of year	<u>\$163</u>

11. FINANCIAL INSTRUMENTS**Fair value**

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

The fair value of the \$544 442 Gouvernement du Québec subsidy receivable could not be assessed, given the absence of a market for this type of financial instrument.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. RELATED PARTY TRANSACTIONS

Some members of the Board of Directors are management personnel of arts organizations subsidized by the Conseil. The subsidies allocated to these organizations were attributed in the Conseil's normal course of business and recorded at exchange value. They total \$1 485 049 (2006: \$1 129 945).

In addition to the related party transactions disclosed in its financial statements and measured 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

At March 31, 2007, the commitments slated for the financial support of arts organizations having signed a contract with the Conseil were \$3 679 632.

14. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

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

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

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

Yvan Gauthier
President and Chief Executive Officer

Québec, May 31, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Conseil des arts et des lettres du Québec as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. I have also audited the balance sheets of the "Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres", "Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres", "Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-nationale", and "Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie », as at March 31, 2007, 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 the Conseil's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Conseil and that of its trust funds as at March 31, 2007 and the results of their operations and cash flows for the year than ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 31, 2007

CORPORATION D'HÉBERGEMENT DU QUÉBEC
(R.S.Q., c. C-68.1)

STATEMENT OF INCOME
for the year ending March 31, 2007
(in thousands of dollars)

	2007	2006
INCOME		
Income from interest	131 338	103 279
Financial management fees	1	152
Rental income:		
Health network (Note 4)	152 264	150 044
Others – net (Note 5)	976	1 226
Management fees on mandated projects	1 998	2 652
Consulting fees	1 563	827
Subsidy from the Government of Canada (Note 6)	144	85
Profit from the disposal of fixed capital assets and properties intended for sale	14	48
Depreciation of deferred contributions	3 988	3 313
Income from withdrawn projects under consideration		106
Other	38	572
	<u>292 324</u>	<u>262 304</u>
EXPENSES		
Financial costs – net (Note 7)	213 761	186 129
Depreciation (Note 8)	57 467	54 528
General and administrative expenses (Note 9)	9 536	8 899
Consulting costs	1 439	807
Costs for withdrawn projects under consideration		106
Network building information system	785	237
Client rebates		1 504
	<u>282 988</u>	<u>252 210</u>
NET PROFIT	<u><u>9 336</u></u>	<u><u>10 094</u></u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF RETAINED EARNINGS
for the year ending March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPENING BALANCE	141 617	131 523
Net profit	<u>9 336</u>	<u>10 094</u>
CLOSING BALANCE	<u><u>150 953</u></u>	<u><u>141 617</u></u>

The notes form an integral part of the financial statements.

STATEMENT OF SURPLUS
for the year ending March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPENING BALANCE	13 050	11 600
Surplus of the fair value over the cost of land acquired for minor or zero consideration	5 143	1 450
Land-related contributions from organizations	<u>312</u>	<u> </u>
CLOSING BALANCE	<u><u>18 505</u></u>	<u><u>13 050</u></u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash reserve	12 378	
Temporary investments		2 434
Accounts receivable (Note 10)	23 221	24 534
Expenses paid in advance	1 739	73
Rents receivable (Note 11)	9 059	10 021
Loans (Note 12)	1 981 385	1 692 515
Receivables – mandated projects (Note 13)	519 281	581 699
Fixed capital assets (Note 14)	1 901 779	1 851 425
Intangible assets (Note 15)	14 331	162
Properties intended for sale (Note 16)	823	819
Projects under consideration	30 881	33 170
Other asset elements (Note 17)	38 026	33 712
	<u>4 532 903</u>	<u>4 230 564</u>
LIABILITIES		
Outstanding cheques less cash reserve		1 858
Accounts and contract holdbacks payable (Note 18)	40 361	32 987
Accrued interest (Note 19)	55 802	47 897
Short-term loans (Note 20)	2 293 647	2 064 347
Long-term debt (Note 21)	1 808 491	1 781 764
Other liability elements (Note 22)	155 144	137 044
	<u>4 353 445</u>	<u>4 065 897</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 23)	10 000	10 000
Contributed surplus	18 505	13 050
Retained earnings	150 953	141 617
	<u>179 458</u>	<u>164 667</u>
	<u>4 532 903</u>	<u>4 230 564</u>

The notes form an integral part of the financial statements.

COMMITMENTS AND CONTINGENCIES (Note 26)

For the board of directors,
Michel L. Lesage, Chairman
Michel Vaillancourt, Vice-Chairman

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW
for the year ending March 31, 2007
(in thousands of dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	9 336	10 094
Elements with no impact on cash and cash equivalents		
Profit from disposal of fixed capital assets and properties intended for sale	(14)	(48)
Interest on irregular coupon bonds	7 913	7 161
Interest income chargeable to loan balances and mandated projects	(63 001)	(47 504)
Interest chargeable to fixed capital assets, intangible assets, projects under consideration and other asset elements	(6 116)	(3 364)
Management fees chargeable to mandated projects and Early Childhood Centres loans	(1 999)	(2 805)
Management fees chargeable to fixed capital assets and projects under consideration	(1 242)	(1 701)
Client rebates		1 504
Depreciation		
Fixed capital assets	56 439	53 558
Intangible assets	88	86
Other asset elements	2 529	2 386
Other liabilities	(3 988)	(3 313)
Net variations in assets and liabilities related to operations		
Accounts receivables	(1 542)	12 502
Expenses paid in advance	(1 666)	(58)
Rents receivable	962	1 083
Accounts and contract holdbacks payable	426	(3 717)
Accrued interest	7 906	(9 656)
	<u>6 031</u>	<u>16 208</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Receipts from loans	756 814	909 025
Payments on loans	(999 257)	(639 944)
Receipts from receivables – mandated projects	196 941	116 078
Payments on receivables – mandated projects	(131 938)	(171 005)
Receipts from accounts receivable from the Gouvernement du Québec related to the long-term debt		5 840
Payments on accounts receivable from the Gouvernement du Québec related to the long-term debt	(3 807)	(4 486)
Acquisition of fixed capital assets	(63 390)	(87 374)
Product from the disposal of fixed capital assets	15	52
Acquisition of properties intended for sale	(4)	(16)
Product from the disposal of properties intended for sale		77
Receipts from projects under consideration	2	1 023
Payments on projects under consideration	(15 445)	(13 188)
Acquisition of other asset elements	(415)	(1 276)
Acquisition of intangible assets	(2 217)	(54)
	<u>(262 701)</u>	<u>114 752</u>
Amounts carried forward	<u>(256 670)</u>	<u>130 960</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW (cont'd)
 for the year ending March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
Amounts brought forward	<u>(256 670)</u>	<u>130 960</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings	11 857 736	9 570 076
Reimbursement of short-term loans	(11 628 436)	(9 549 034)
Long-term borrowings	101 935	167 922
Reimbursement of long-term debt	(80 077)	(324 341)
Net increase in other liabilities	17 002	12 437
Net increase in contributed surplus	<u>312</u>	
	<u>268 472</u>	<u>(122 940)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	11 802	8 020
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>576</u>	<u>(7 444)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 28)	<u><u>12 378</u></u>	<u><u>576</u></u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**

as at March 31, 2007

(in thousands of dollars)

1. CONSTITUTION, MISSION AND OPERATIONS

The Corporation d'hébergement du Québec (the Corporation) is a legal person with share capital constituted pursuant to the Act respecting the Corporation d'hébergement du Québec (R.S.Q., c. C-68.1).

The Corporation's mission is to offer for use by health and social service sector stakeholders, in exchange for consideration and with a view to self-funding, the technical and financial expertise and the funding required to manage, construct, maintain and acquire capital assets, equipment and health and social services infrastructures.

A further mission is to own and hire out, for consideration, property used or to be used by a health and social services institution, local development agency or regional council referred to in the Act respecting health services and social services (R.S.Q., chapter S-4.2) or the Act respecting health services and social services for Cree and Inuit Native persons (R.S.Q. chapter S-5) or any other person, company or association appointed for that purpose by the Minister or by the Government.

2. PRINCIPAL ACCOUNTING POLICIES

Under generally recognized Canadian accounting principles, the Corporation's management must use estimates and assumptions as a basis for the Corporation's financial statements. The estimates and assumptions have an impact on the entry of assets and liabilities, on the presentation of future assets and liabilities on the date on which the financial statements are prepared and on the entry of revenues and expenses during the period covered by the financial statements. Actual results may differ from the estimates.

RENTAL INCOME

The Corporation reports rental income from the health network by entering a monthly provision calculated from estimated annual rents, approved by the Ministère de la Santé et des Services sociaux, at the beginning of the fiscal year. Rental income is adjusted at the end of the year to reflect actual rents. Any difference is entered as owing by or receivable from the Ministère de la Santé et des Services sociaux.

FIXED CAPITAL ASSETS**Buildings Under Operation**

The buildings purchased by the Corporation are entered at cost or at their fair value where the consideration is minor or zero. The surplus of the fair value of lands over their cost is entered as contributed surplus. The surplus of the fair value of buildings over their cost is entered as deferred contributions.

Buildings are depreciated using the straight-line method of depreciation for depreciation periods ranging from 10 to 50 years.

The cost of land improvements and development, and the added costs of buildings governed by emphyteutic leases, are depreciated using the straight-line method of depreciation for a period equivalent to the lesser of their life cycle or the duration of the emphyteutic lease.

Buildings Under Construction

In addition to direct costs, the cost of buildings under construction includes a relevant fraction of the related general and administrative expenses, along with financing costs. Financing costs are capitalized for buildings under construction until they are transferred to buildings under operation.

Rented Furniture and Equipment

Rented furniture and equipment chargeable to fixed capital assets is entered at cost. Depreciation is calculated over the estimated useful life of the item using the straight-line method over a ten-year period.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

INTANGIBLE ASSETS

Software and Application Development

Software and application developments for the three Québec health sector projects, namely the Electronic Health Record (DSEIQ), the Patient Index (PME) and Innovation, which are owned by the Corporation, are entered at cost. In addition to direct costs, software and application developments include financing and management costs up to the time they are brought into operation. They will be depreciated from that date onwards.

Computer Systems

The computer systems are entered at cost. Depreciation is calculated over a five-year period using the straight-line method.

PROPERTIES INTENDED FOR SALE

Properties intended for sale are valued at the lesser of their depreciated cost and their net realizable value. No depreciation is recorded for these properties from the time the Corporation decides to dispose of them.

PROJECTS UNDER CONSIDERATION

In addition to direct costs, projects under consideration include management and financing costs. These costs are accrued until the study cost is transferred to project construction and repair costs or reimbursed by the Ministère de la Santé et des Services sociaux in cases where the project is not implemented.

CAPITALIZED INTEREST

The portion of interest expenditure relating to buildings under construction is capitalized using the average weighted interest rate for temporary borrowings.

OTHER ASSET ELEMENTS

Discount, Premium and issue expenses Related to the Long-term Debt

Discount, premium and issue expenses related to the long-term debt are deferred and amortized over the term of the debt using the straight-line method.

Deferred Charges - Conservation

Conservation expenses incurred for capital assets are entered under the deferred charges item and will be amortized using the straight-line method over a 15-year period in cases where the projects are completed in their entirety. The amounts are invoiced to the lessees, and are recovered over the same 15-year period.

Computer Systems

Computer systems are entered at cost. Depreciation is calculated using the straight-line method over a five-year period.

Computer Systems – Québec Health Sector

The computer systems include technological infrastructures relating to the three Health Sector dossiers and owned by the Corporation. They are entered at cost, and will be depreciated from the time they are brought into operation.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**OTHER ASSET ELEMENTS (cont'd)****Furniture and Equipment**

Items of furniture and equipment used for administrative purposes are entered at cost. Depreciation is calculated over their estimated useful life using the straight-line method over a period of between five and ten years.

Workplace Development

Workplace development is depreciated using the straight-line method over a period of between 10 and 25 years.

LONG-TERM DEBT

Irregular coupon bonds are entered at their face value increased annually by capitalization of interest expenses at the effective rate, using the compound interest method.

OTHER LIABILITIES**Deferred Contributions**

Deferred contributions are composed of the surplus of the fair value of buildings over their cost where the consideration is minor to zero, together with amounts received from organizations to finance building projects. They are gradually transferred to revenues using the depreciation method applicable to the buildings in question.

Land-related contributions from organizations are entered as contributed surplus. Where conditions are attached to the contributions, they are entered as deferred contributions and transferred to contributed surplus once the conditions have been met.

RENTS COLLECTED IN ADVANCE

Rents collected in advance are rents received in advance. They are depreciated using the straight-line method over a 25-year period, i.e. the duration of the lease which expires in 2029 and 2030.

PENSION PLANS

Defined contribution plan accounting is applied to government inter-enterprise defined benefit plans because the Corporation has insufficient information to apply defined benefit plan accounting.

CASH AND CASH EQUIVALENTS

Under the Corporation's policy, cash and cash equivalents include outstanding cheques minus cash reserves and temporary liquid investments that can easily be converted into a known amount of cash whose value is unlikely to change significantly.

HEDGE ACCOUNTING

The Corporation uses derivative financial instruments to reduce the risks related to interest rate fluctuations arising from short-term borrowings. It does not use these instruments for transaction purposes. Under its policy, the Corporation duly designates every derivative financial instrument as a hedge for a clearly identified borrowing instrument. In its opinion, derivative financial instruments are effective as hedges, both initially and throughout the duration of the instrument, since the duration to term, notional amount (principal) and reference interest rate of the instruments are consistent in every respect with the conditions of the hedged borrowing instrument.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

HEDGE ACCOUNTING (cont'd)

The Corporation uses interest rate swaps as part of its policy to manage cash borrowings, short-term investments and their related financial risks. Interest rate swaps give rise to periodic interest payment swaps. The capital amounts are not exchanged. The swaps are entered as adjustments to the interest charges on the hedged borrowing instrument. The corresponding net amounts payable as consideration or receivable from consideration are entered in the balance sheet as assets or liabilities relating to derivative financial instruments.

3. CHANGE TO AN ACCOUNTING POLICY

On April 1, 2006, the Corporation began to use interest rate swaps to hedge the fair value of its short-term borrowings. The swaps are entered as hedges using the method described in the accounting policies. Previously, the swaps were entered at their fair value and variations were posted to the statement of income. This change has been applied prospectively.

4. RENTAL INCOME – HEALTH NETWORK

Rental income is derived from 15-year leases signed on or after April 1, 2000, with hospitals, local community service centres (CLSCs), long-term residential care centres (CHSLDs) and other health network organizations occupying the Corporation's buildings. It is established annually on the basis of the Corporation's pricing policy.

5. RENTAL INCOME – OTHERS – NET

	2007	2006
Rental Income	3 998	4 053
Expenses		
Operating costs	1 510	1 579
Interest	443	319
Conservation work	256	121
Depreciation of buildings	719	714
Depreciation of workplace developments	94	94
	3 022	2 827
	976	1 226

6. SUBSIDY FROM THE GOVERNMENT OF CANADA

Under section 95 of the National Housing Act (R.S.C., c. N-11), the Corporation qualifies for a contribution from the Government of Canada to enable it to bear the cost of financing housing projects. In all, 23 properties qualified for the subsidy.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

7. FINANCIAL COSTS – NET

	2007	2006
Interest on the Long-term debt		
Bonds	19 214	19 138
Notes	99 895	100 696
Other debts	2 567	4 837
Amortization of discounts, premiums and issue expenses for long-term debt	487	408
Other financial costs	8	3 471
	<u>122 171</u>	<u>128 550</u>
Minus:		
Interest income from a sinking fund for the buildings of the Corporation managed by the Ministère des Finances	<u>1 797</u>	<u>1 685</u>
	<u>120 374</u>	<u>126 865</u>
Interest on Short-term loans		
Interest	97 869	62 655
Minus:		
Interest charged to buildings under construction owned by the Corporation, to projects under consideration, to intangible assets and to other asset elements	4 477	3 364
Interest income	<u>5</u>	<u>27</u>
	<u>93 387</u>	<u>59 264</u>
	<u><u>213 761</u></u>	<u><u>186 129</u></u>

Interest costs on loans from related enterprises under joint control amounted to \$102.5 M (2006: \$103.3 M) in the case of long-term loans and \$43.7 M (2006: \$22.1 M) in the case of short-term loans.

The other financial costs are contributions paid for the refinancing of long-term loans prior to term. These costs were paid by the Corporation under protest, and as of March 31, 2007, were still the subject of legal proceedings.

8. DEPRECIATION

	2007	2006
Fixed capital assets		
Buildings under operation	51 723	48 865
Rented furniture and equipment	3 997	3 979
Other assets elements		
Deferred costs – conservation	<u>1 747</u>	<u>1 684</u>
	<u><u>57 467</u></u>	<u><u>54 528</u></u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	9 173	8 599
Cost of premises occupied by the Corporation	813	514
Professional services	358	619
Mail, courier services, communications and marketing	178	166
Information systems	227	254
Administrative and office expenses	237	205
Other expenses	616	714
Depreciation of furniture and equipment, computer systems and computer hardware	289	286
	<u>11 891</u>	<u>11 357</u>
Minus:		
Management costs and direct costs capitalized to fixed capital assets, receivables-mandated projects and projects under consideration	1 310	1 846
Direct costs charged to consulting expenses and network building information system expenses	1 045	612
	<u>9 536</u>	<u>8 899</u>

10. ACCOUNTS RECEIVABLE

	2007	2006
Amount receivable from the Gouvernement du Québec	17 960	15 517
Health and social services agencies	280	405
Health network institutions	4 725	8 192
Others	256	420
	<u>23 221</u>	<u>24 534</u>

11. RENTS RECEIVABLE

On March 31, 2000, the Corporation recorded a subsidy receivable from the Ministère de la Santé et des Services sociaux for interest incurred but not due on the long-term loans shown in its financial statements. Because the Corporation no longer receives subsidies from the Ministère de la Santé et des Services sociaux, this amount, with the consent of the Ministère, has been converted into "rents receivable". Rents receivable will be reimbursed to the Corporation by the institutions concerned, without interest, in accordance with a predetermined payment schedule terminating in 2033.

12. LOANS

	2007	2006
Health and social services agencies *	790 696	734 009
Health network institutions **	1 181 168	891 083
Early childhood centres ***	7 450	66 826
Others	2 071	597
	<u>1 981 385</u>	<u>1 692 515</u>

* These loans include an amount of \$435.7 M (2006: \$452.5 M) relating to loan agreements covering the period up to 2023, in consideration of which long-term financing has been granted. Instalments on the loans are payable on September 30 and March 31 of each year and are guaranteed by movable hypothecs. The amounts received correspond to the payments due in

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

12. LOANS (cont'd)

capital and interest on the long-term loan, with interest rates varying, in 2006 and 2007, between 5.5% and 12.5% for terms ending between 2008 and 2023. The loans also include a short-term amount of \$355.0 M (2006: \$281.5 M) comprising lines of credit currently bearing interest at the one-month bank acceptance rate plus 0.30%.

** These loans include an amount of \$1 129.2 M (2006: \$863.2 M) composed of lines of credit currently bearing interest at the bank acceptance rate plus 0.30%. These loans also include an amount of \$52.0 M (2006: \$27.9 M) covered by long-term loan agreements ending between 2008 and 2016 and bearing interest at the one-month bank acceptance rate plus 0.30%.

*** These loans are short-term and currently bear interest at the preferential rate less 0.5%.

13. RECEIVABLES – MANDATED PROJECTS

Receivables – mandated projects include all direct costs plus management fees and interest, calculated at the one-month bank acceptance rate plus 0.30%, for building projects entrusted to the Corporation by the health network. Receivables are reimbursed when the project is completed, through collection of the financing monies obtained by the institution concerned.

14. FIXED CAPITAL ASSETS

	2007		2006
	Cost	Accumulated Depreciation	Net Value
Properties under operation			
Land	96 944		96 944
Buildings	1 990 822	329 546	1 661 276
	<u>2 087 766</u>	<u>329 546</u>	<u>1 758 220</u>
Projects under construction			
Land	65 135		65 135
Buildings	61 185		61 185
	<u>126 320</u>		<u>126 320</u>
Rented furniture and equipment	43 842	26 603	17 239
	<u>2 257 928</u>	<u>356 149</u>	<u>1 901 779</u>

Costs Capitalized to Properties

During the year, the following costs were capitalized to properties:

	2007	2006
Interest on short-term borrowings	2 700	2 449
General and administrative expenses	986	1 497

CORPORATION D'HÉBERGEMENT DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars)

15. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated Depreciation	Net Value
Application and software developments	14 167		14 167
Computer systems	568	404	162
	<u>14 735</u>	<u>404</u>	<u>14 331</u>

On August 1, 2006, le ministre de la Santé et des Services sociaux authorized the Corporation to contract the loans required to produce and protect ownership of the 3 Québec Health Sector projects, up to a maximum amount of \$130.9 M.

16. PROPERTIES INTENDED FOR SALE

	2007		2006
	Cost	Accumulated Depreciation	Net Value
Land	808		808
Buildings	226	211	11
	<u>1 034</u>	<u>211</u>	<u>819</u>

17. OTHER ASSET ELEMENTS

	2007		2006
	Cost	Accumulated depreciation	Net value
Issue expenses, discount and premium costs related to the long-term debt	11 662	2 239	9 423
Deferred costs – conservation	26 979	7 058	19 921
Computer hardware	706	472	234
Computer hardware – Québec Health Sector	5 664		5 664
Furniture and equipment	1 249	654	595
Workplace development	2 094	380	1 714
Deferred costs – other	475		475
	<u>48 829</u>	<u>10 803</u>	<u>38 026</u>

18. SUPPLIER ACCOUNTS AND CONTRACT HOLDBACKS PAYABLE

	2007	2006
Amount owed to the Gouvernement du Québec	2 360	425
Health and social services agency	2 390	
Health network institutions	1 979	1 629
Others	33 632	30 933
	<u>40 361</u>	<u>32 987</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

19. ACCRUED INTEREST

	2007	2006
Related organizations – entities under joint control	41 564	40 810
Others	14 238	7 087
	<u>55 802</u>	<u>47 897</u>

20. SHORT-TERM LOANS

	2007	2006
Discount notes		
Financial institutions, 4.31% to 4.50%	1 414 562	765 454
Consolidated fund of the Province of Québec, 4.35% to 4.38%	541 085	702 003
Transfer trust to reduce waiting times		125 467
Notes at par		
Fonds de financement du Gouvernement du Québec, 4.40%	310 000	319 000
Consolidated fund of the Province of Québec, 4.37%	28 000	98 000
Sinking fund of the Province of Québec		21 200
Others		33 223
	<u>2 293 647</u>	<u>2 064 347</u>

As at March 31, 2007, the Corporation had one line of credit of \$10 M, renewable on July 31, 2007. Amounts drawn bear interest at the preferential rate.

21. LONG-TERM DEBT

	2007	2006
Bonds :		
- 10.75% to 12.5%, falling due between 2008 and 2019	74 590	74 590
- No payment of interest for periods of 15 to 19 years and bearing interest for the remainder at rates of 68% to 156% (effective rate of 10.46% to 10.51%) falling due between 2013 to 15, including capitalized interest	112 526	107 052
Borrowing on notes from the Fonds de financement du Gouvernement du Québec at rates varying from:		
- 3.73% to 6.52%, falling due in 2008 to 2037	1 451 368	1 413 446
- 6.77% and 6.79%, falling due in 2023	175 850	185 619
- 9.38%, falling due in 2018 and 2021	27 319	29 335
Borrowings on notes from Financement-Québec at rates varying from:		
- 5.56% and 6.40%, falling due in 2009 and 2016	664	727
- 8.32%, falling due in 2019	493	534
- 9.38%, falling due in 2018	461	503
Mortgages from Immobilière SHQ guaranteed by buildings with a book value of \$106.8 M at rates varying from:		
- 6.88%, falling due from 2020 to 2023	14 460	15 037
- 7.5% and 7.88%, falling due from 2021 to 2029	4 538	4 659
- 8%, falling due from 2028 to 2030	14 489	14 722
Amounts carried forward	<u>1 876 758</u>	<u>1 846 224</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars)

21. LONG-TERM DEBT (cont'd)

	2007	2006
Amounts brought forward	1 876 758	1 846 224
Minus:		
Amounts receivable from the Gouvernement du Québec related to the long-term debt *	68 267	64 460
	<u>1 808 491</u>	<u>1 781 764</u>

* Under its constituting Act, the Corporation deposits amounts into the Sinking Fund for loans to health and social service organizations in Québec, managed by the Ministère des Finances. The amounts in question are used to reimburse a portion of its bonded debts. The generated a yield of 5.0% (2006: 4.9%).

All long-term loans bear interest at a fixed rate.

The capital payments to be made in the next five financial years are as follows:

	Financement- Québec *	Fonds de financement du Gouver- nement du Québec *	Immobilière SHQ *	Other Unrelated Organi- zations	Payments (net contributions) to the Sinking Fund	Total Payments
2008	146	253 101	999	17 234	(6 069)	265 411
2009	313	67 773	1 073	53 026	(36 718)	85 467
2010	129	160 234	1 153	4 490	1 320	167 326
2011	129	113 631	1 238	17 449	1 320	133 767
2012	129	54 977	1 330	19 281	1 320	77 037

Movable hypothecs in favour of the Corporation apply to ministerial subsidies paid to health sector stakeholders. The hypothecs may in future be transferred to unrelated creditors of the Corporation to guarantee their loans.

* Entities under joint control

22. OTHER LIABILITIES

	2007			2006
	Cost	Accumulated Depreciation	Net Value	Net Value
Deferred contributions	372 697	218 111	154 586	135 297
Liabilities relating to derivative financial instruments	87		87	342
Rents collected in advance	552	81	471	1 405
	373 336	218 192	155 144	137 044

During the year, contributions from organizations to fund construction projects amounted to \$16.9 M (2006: \$17.2 M).

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

23. CAPITAL STOCK

	<u>2007</u>	<u>2006</u>
The shares of the Corporation d'hébergement du Québec are held by the Ministère des Finances.		
Authorized 5 000 000 ordinary shares with a nominal value of \$100 each		
Issued and paid up: 100 000 shares	<u>10 000</u>	<u>10 000</u>

24. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, most of the Corporation's revenues and expenses derive from transactions with the health and social services agencies, health and social services network institutions and organizations and the Ministère de la Santé et des Services sociaux. These transactions are posted at their exchange value.

In addition, buildings acquired from related parties for minor or zero consideration measured at fair value total \$11.3 M, with consideration equivalent to the deferred contributions or contributed surplus and entered at a net minor or zero book value.

The Corporation is also related to all government departments and special funds and to all organizations and enterprises controlled directly or indirectly by the Gouvernement du Québec, or subject either to joint control or to a common significant influence by the Gouvernement du Québec. The Corporation has not entered into any commercial transactions with these related parties, other than in the normal course of its activities and on the usual commercial conditions. These transactions are posted at their exchange value and are not disclosed separately in the financial statements.

25. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS***Derivative Financial Instruments*

To hedge the risks resulting from the effect of interest rate fluctuations on its short-term borrowings with the Ministère des Finances du Québec, the Corporation has entered into interest rate swaps. All swaps are for a term of less than one year.

	<u>2007</u>		<u>2006</u>
	Fair Value	Notional Amount	Fair Value
		Amount	Notional Amount
Interest rate swaps	<u>(158)</u>	<u>2 293 647</u>	<u>(342)</u>
			<u>1 803 436</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

25. FINANCIAL INSTRUMENTS (cont'd)

FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Other financial instruments

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt ¹⁾	1 876.8	2 075.7	1 846.2	2 055.8
Amounts receivable from the Gouvernement du Québec related to the long-term debt ²⁾	68.3	72.5	64.5	77.8
Short-term borrowings ³⁾	2 293.6	2 293.6	2 064.3	2 064.3
Loans ⁴⁾	1 981.4	2 036.1	1 692.5	1 777.5
Rents receivable ⁵⁾	9.1		10.0	
Other asset elements and liabilities ⁶⁾	652.8		691.5	

The fair value of the financial instruments was established using the following methods and assumptions:

- 1 Discounting of cash flows at market rates for instruments with similar maturity dates and interest rates.
- 2 Based on the market value of the related Sinking Fund investments.
- 3 Because of their short renewal period, the fair value of these titles is equivalent to their book value.
- 4 The fair value of the loans equivalent to that of the long-term debt attributable to those receivables was \$490.4 M (2006: \$537.5 M), given that the amounts are in fact the payments in capital and interest falling due on the debts in question. An amount of \$1 545.7 M (2006: \$1 240.0 M) has not been appraised, and has been considered at its book value because there is no market for this type of loan. Generally speaking, the loans have variable rates for indeterminate periods.
- 5 The fair value of the rents receivable cannot be estimated since there is no market for this type of debt. The rents receivable are spread over a residual period of 26 years and do not bear interest.
- 6 The fair value of cash reserve, temporary investments, accounts receivable, expenses paid in advance, accounts and contract holdbacks payable and accrued interest is equal to their book value.

INTEREST RATE AND CREDIT RISK

The risk relating to long-term debt interest rates is limited by the fact that all interest expenses are re-invoiced to the health network through rental leases and loan agreements. The credit risk is also limited because the Ministère de la Santé et des Services sociaux, in its expense budget, recognizes the financial commitments that health institutions have made in respect of these leases and loans.

26. COMMITMENTS AND CONTINGENCIES

CONTRACTUAL COMMITMENTS

As at March 31, 2007, the uncompleted balance of contracts signed by the Corporation involving contractual commitments totalled \$93.5 M (2006: \$79.8 M), including \$43.5 M (2006: \$28.1 M) for current projects and \$46.0 M (2006: \$49.7 M) for projects under consideration.

CREDIT INSTRUMENTS

The credit instruments used to meet the financing needs of the Corporation's clients represent the maximum amount of additional credit that the Corporation could be required to grant if all its commitments were used in their entirety.

The total amount of the credit instruments does not necessarily represent the need for future liquidities since the instruments may expire or be cancelled without any disbursement of funds. The table below shows the unused contractual amounts.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

26. COMMITMENTS AND CONTINGENCIES (cont'd)**CREDIT INSTRUMENTS (cont'd)**

	2007	2006
Loans		
Health and social services agencies	324 513	227 096
Health network institutions	11 692	23 741
Early childhood centres	1 012	14 795
Others	108	
	<u>337 325</u>	<u>265 632</u>

CONTINGENCIES**Insurance Claim**

A claim for \$35 M has been submitted to the insurers for the fire at the Hôtel-Dieu de Roberval in December 1998. Of this total, the insurer has paid an amount of \$6.1 M as at March 31, 2007. At the time these financial statements were prepared, the Corporation was unable to estimate the amount of any additional payment that may result from the claim.

Financing of deductibles on the civil and professional liability policies of institutions participating in the insurance program offered by the Association des hôpitaux du Québec

Under section 472.1 of the Act respecting health services and social services (R.S.Q., chapter S-4.2), the Corporation may be called upon to guarantee the execution of an obligation incumbent upon an Association recognized by the Minister pursuant to section 267 of the said Act concerning the management of a deductible relating to an insurance contract negotiated and entered into by that Association for the benefit of its members. It may also advance to the Association any sum considered necessary for the management of the deductible.

The Minister may, on the conditions established by the Government, reimburse any amounts that the Corporation is called upon to pay as part of the above guarantee.

Legal Proceedings and Claims

Claims and legal proceedings against the Corporation, in the amount of \$34.2 M, were in progress at the time these financial statements were prepared. Based on the available information, however, management believes it is highly unlikely that these claims and legal proceedings will result in any liability of significance to the Corporation's financial situation.

Where applicable, any payments by the Corporation will be entered into the year's expenses, and either capitalized to properties depending on the type of the claim, or deducted from the existing provisions.

27. FUTURE FRINGE BENEFITS**Pension Plans**

The personnel of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP), or in the Civil Service Superannuation Plan (RRF), or in the Managerial Personnel Retirement Plan (RRPE) or in the Senior Administration Pension Plan (RRAS), administered by an organization of the Gouvernement du Québec. These multi-employer pension plans are defined benefit plans and include guarantees upon retirement and upon death.

CORPORATION D'HÉBERGEMENT DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars)

27. FUTURE FRINGE BENEFITS (cont'd)
Pension Plans (cont'd)

The Corporation's obligations under these government plans are limited to its employer's contributions. The contributions of the Corporation charged against its revenues for the year amounted to \$0.4 M (2006: \$0.4 M).

Provision for Sick Leave and Vacations

	2007			2006
	Vacations	Sick Leave	Total	Total
Opening balance	738	1 084	1 822	1 854
Amounts transferred *	(5)	(10)	(15)	10
Yearly charge	686	264	950	825
Subtotal	1 419	1 338	2 757	2 689
Minus:				
Benefits paid during the year	641	170	811	867
Closing balance	778	1 168	1 946	1 822

The balance of the provision is included in the "accounts and contract holdbacks payable" item.

* The amounts transferred are for vacation and sick leave payable or cancelled following the transfer of employees between the Gouvernement du Québec and the Corporation. These amounts are presented under the "other expenses" item of administrative and general expenses.

28. CASH FLOW

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

	2007	2006
Cash reserve	12 378	
Temporary investments		2 434
Outstanding cheques less cash reserve		(1 858)
Cash and cash equivalents	12 378	576

The Corporation paid \$203.7 M (2006: \$193.3 M) in interest during the year, and received interest payments of \$67.1 M (2006: \$56.0 M).

During the year, properties were acquired at a total cost of \$78.0 M (2006: \$84.7 M), including an amount of \$63.4 M (2006: \$87.4 M) disbursed during the year. An amount of \$15.5 M (2006: \$29.2 M) was disbursed during the year for acquisitions from the previous year. In addition, out of the total amount of property acquisitions, \$11.5 M (2006: \$11.1 M) were acquired by posting the amount by which the fair value of the goods acquired exceeded their cost where the consideration was minor or zero.

29. COMPARATIVE FIGURES

Some figures from 2006 have been reclassified in order to comply with the form of presentation used in 2007.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Corporation d'hébergement du Québec were drawn up by the Corporation's management, which is responsible for all aspects of preparation and presentation, including the estimates and principal opinions. Management's responsibility extends to the selection of appropriate accounting principles that are generally accepted in Canada. The financial information contained in the remainder of the annual report of activities is consistent with the information presented in the financial statements.

To carry out its responsibility, the Corporation's management maintains a system of internal accounting controls designed to offer a reasonable guarantee that the assets of the Corporation have been adequately protected, and that financial operations have been correctly recorded at the appropriate time, duly approved and used as a basis for the preparation of reliable financial statements.

The Corporation acknowledges that it is responsible for managing its affairs in accordance with the legislation and regulations governing it.

The board of directors oversees the way in which management fulfills its responsibilities in respect of the financial information, and has approved the financial statements. It is assisted by the auditing committee, whose members are not part of the management team. The committee meets with management and the auditor, examines the financial statements and recommends that the board approve them.

The Auditor General of Québec has audited the financial statements of the Corporation in accordance with generally accepted Canadian auditing principles. The Auditor's Report describes the nature and scope of the audit and sets out the auditor's opinion. The Auditor General has full and free access to the auditing committee to discuss elements relevant to the audit.

Michel L. Lesage
Chief Executive Officer

Québec City, June 1, 2007

AUDITOR'S REPORT

To the Minister of Finance of Québec

I have audited the balance sheet of the Corporation d'hébergement du Québec as at March 31, 2007, along with the statements of income, retained earnings, 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 them, based on my audit.

I conducted my audit in accordance with generally accepted Canadian auditing standards. Those 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 involves the testing of evidence supporting the amounts and disclosures in the financial statements. An audit also involves an assessment of the accounting policies used and any significant estimates made by management, as well as an evaluation of the overall presentation of the financial statements.

In my opinion, these financial statements are a fair presentation, in all material respects, of the financial position of the Corporation as at March 31, 2007, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted Canadian accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I hereby declare that, in my opinion, these principles have been applied in the same way as in the preceding year, except for the change in swap transaction interest rate accounting explained in Note 3.

Renaud Lachance, CA
Auditor General of Québec

Québec City, June 1, 2007

CORPORATION D'URGENCES-SANTÉ
(R.S.Q., c. S-5)

STATEMENT OF OPERATIONS
for the year ended March 31

	<u>2007</u>	<u>2006</u>
REVENUES		
Subsidies (Note 3)	\$57 550 145	\$55 057 031
Ambulance services (Note 4)	27 962 458	27 674 457
Miscellaneous	<u>563 781</u>	<u>386 644</u>
	86 076 384	83 118 132
EXPENSES (Note 5)	<u>84 387 548</u>	<u>82 241 526</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$1 688 836</u>	<u>\$876 606</u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31

	<u>2007</u>	<u>2006</u>
CUMULATED SURPLUS, BEGINNING OF YEAR	\$2 943 318	\$2 066 712
Recovery of the surplus as at March 31, 2006 by the Ministère de la Santé et des Services	<u>(2 943 318)</u>	<u>2 066 712</u>
Excess of revenues over expenses	<u>1 688 836</u>	<u>876 606</u>
CUMULATED SURPLUS, END OF YEAR	<u>\$1 688 836</u>	<u>\$2 943 318</u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉBALANCE SHEET
as at March 31

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$5 401 441	\$10 311 197
Accounts receivable (Note 7)	5 999 212	5 152 770
Prepaid expenses	<u>44 117</u>	<u>11 964</u>
	11 444 770	15 475 931
Capital assets (Note 9)	<u>17 819 322</u>	<u>4 244 641</u>
	<u><u>\$29 264 092</u></u>	<u><u>\$19 720 572</u></u>
LIABILITIES		
Current liabilities		
Owed to the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing, bearing interest at the prime rate less 1.95%, no terms of repayment	\$807 748	\$1 275 563
Accounts payable and accrued liabilities	19 903 738	15 196 412
Deferred subsidies	110 000	
Instalments on commitments under capital leases (Note 11)	<u>1 348 696</u>	<u>228 172</u>
	22 170 182	16 700 147
Commitments under capital leases (Note 11)	<u>5 405 074</u>	<u>77 107</u>
	27 575 256	16 777 254
CUMULATED SURPLUS	<u>1 688 836</u>	<u>2 943 318</u>
	<u><u>\$29 264 092</u></u>	<u><u>\$19 720 572</u></u>
COMMITMENTS (Note 14)		
CONTINGENCY (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Carole Deschambault, Member, Auditing Committee
Pierre Lapointe, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉSTATEMENT OF CASH FLOWS
for the year ended March 31

	2007	2006
CASH FLOWS RELATED TO: (Note 16)		
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$1 688 836	\$876 606
Non-cash items charged to operating results:		
Ministère de la Santé et des Services sociaux		
- operating subsidy	(2 943 318)	
Amortization of capital assets	1 849 450	2 484 905
Loss (gain) on sale of capital assets	28 419	(4 625)
	<u>623 387</u>	<u>3 356 886</u>
Changes in assets and liabilities related to operations		
Current assets, (increase) decrease		
Accounts receivable	(846 442)	599 177
Prepaid expenses	(32 153)	607 522
Current liabilities, increase (decrease)		
Owed to the Provincial Activities Fund and the		
Provincial Fund for the management of ambulance		
technicians' individual protective clothing	(467 815)	641 124
Accounts payable and accrued liabilities	4 016 434	504 661
Deferred subsidies	110 000	(87 000)
	<u>2 780 024</u>	<u>2 265 484</u>
	<u>3 403 411</u>	<u>5 622 370</u>
FINANCING ACTIVITIES		
Repayment of the debt for capital lease contracts	<u>(394 922)</u>	<u>(2 025 603)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(7 928 785)	(3 339 639)
Proceeds from sale of capital assets	10 540	7 584
	<u>(7 918 245)</u>	<u>(3 332 055)</u>
INCREASE (DECREASE) IN CASH ON HAND	(4 909 756)	264 712
CASH ON HAND, BEGINNING OF YEAR	<u>10 311 197</u>	<u>10 046 485</u>
CASH ON HAND, END OF YEAR	<u>\$5 401 441</u>	<u>\$10 311 197</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

	2007	2006
BALANCE, BEGINNING OF YEAR	<u>\$1 275 563</u>	<u>\$838 464</u>
Increase		
Ministère de la Santé et des Services sociaux subsidy	755 471	1 100 821
Interest	<u>34 997</u>	<u>26 529</u>
	<u>790 468</u>	<u>1 127 350</u>
Decrease		
Contribution to the International Interdisciplinary Conference on Emergencies		12 071
Investigation fees		156 010
Contribution to the secondary RCR program	50 000	50 000
Professional fees	135 865	8 060
Call prioritization system	404 079	358 115
Uniforms and test individual protective clothing	9 800	18 947
Purchase of crests	21 581	25 448
Contribution to the advanced pre-hospital care pilot project	80 000	61 600
Training	12 000	
Reimbursement of purchases of ambulance technicians' individual protective clothing for previous years	280 058	
Negotiation of collective agreements for the ambulance network	282 499	
Contribution to the Provincial Fund for the management of ambulance technicians' individual protective clothing	<u>558 967</u>	
	<u>1 834 849</u>	<u>690 251</u>
BALANCE, END OF YEAR	<u>\$231 182</u>	<u>\$1 275 563</u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

BALANCE SHEET
as at March 31

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Amount receivable from the Ministère de la Santé et des Services sociaux	\$123 885	
Amount receivable from the Corporation, bearing interest at the prime rate less 1.95%, no terms of repayment	<u>107 297</u>	<u>1 275 563</u>
	<u><u>\$231 182</u></u>	<u><u>\$1 275 563</u></u>
 FUND BALANCE	 <u><u>\$231 182</u></u>	 <u><u>\$1 275 563</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Carole Deschambault, Member, Auditing Committee
Pierre Lapointe, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL FUND FOR THE MANAGEMENT OF AMBULANCE TECHNICIANS'
 INDIVIDUAL PROTECTIVE CLOTHING
 CHANGES IN FUND BALANCE
 for the year ended March 31, 2007

	<u>2007</u>
BALANCE, BEGINNING OF YEAR	
Increase	
Ministère de la Santé et des Services sociaux subsidy	\$640 340
Local health services and social services network development boards contribution	699 350
Provincial Activities Fund contribution	558 967
Interest	<u>27 784</u>
	<u>1 926 441</u>
Decrease	
Purchase of individual protective clothing	1 009 490
Measurement-taking	129 139
Maintenance and repair of individual protective clothing	6 793
Laundry	15 567
Electronic data processing	44 573
Professional fees	1 232
Meeting costs	<u>326</u>
	<u>1 207 120</u>
BALANCE, END OF YEAR	<u><u>\$719 321</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL FUND FOR THE MANAGEMENT OF AMBULANCE TECHNICIANS'
 INDIVIDUAL PROTECTIVE CLOTHING
 BALANCE SHEET
 as at March 31, 2007

	<u>2007</u>
ASSETS	
Current assets	
Amount receivable from the Ministère de la Santé et des Services sociaux	\$18 870
Amount receivable from the Corporation, bearing interest at the prime rate less 1.95%, no terms of repayment	<u>700 451</u>
	<u><u>\$719 321</u></u>
 FUND BALANCE	 <u><u>\$719 321</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Carole Deschambault, Member, Auditing Committee
 Pierre Lapointe, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS
March 31, 2007**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 only with the Department's prior authorization.

Provincial Activities Fund

The Ministère de la Santé et des Services Sociaux (MSSS) mandated the Corporation to manage the purchase of security equipment and uniforms for all ambulance 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 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.

Provincial Fund for the Management of Ambulance Technicians' Individual Protective Clothing

A memorandum of agreement involving a trust estate for the management of ambulance technicians' protective clothing was signed between the Ministère de la Santé et des Services sociaux, ambulance company associations and the Corporation. The Corporation is mandated to act as a trustee of the fund for the purchase, management and maintenance of individual protective clothing. During the fiscal year, this fund replaced the Provincial Activities Fund for reporting all new transactions linked to the management of individual protective clothing.

The operations of these Funds are recorded separately from those of the Corporation.

2. ACCOUNTING POLICIES**Use of estimates**

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

Subsidy income reporting

Subsidies are recorded as proceeds when it is received or receivable if it is relatively certain that it will be received.

Proceeds recording

Proceeds from ambulance transportation are posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The services have been rendered;
- The selling price is or can be determined;
- Recovery is reasonably certain.

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Capital assets**

Capital assets are recorded at cost and amortized in accordance with the straight-line method over the following estimated service lives:

Computer equipment	3 to 5 years
Furniture and equipment	5 to 10 years
Automotive equipment	3 to 5 years
Computer-aided dispatch system	5 years

Pension plans

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

3. REVENUE - SUBSIDIES

	2007	2006
Ministère de la Santé et des Services sociaux		
- operating subsidy	\$57 270 087	\$55 057 031
Reimbursement from Provincial Activities Fund for purchases of ambulance technicians' individual protective clothing for previous years	280 058	
	<u>\$57 550 145</u>	<u>\$55 057 031</u>

4. REVENUE - AMBULANCE SERVICES

	2007	2006
Health and social services institutions	\$9 690 376	\$9 392 402
Ministère de la Santé et des Services sociaux		
- subsidy for institutions	5 651 021	5 651 021
	15 341 397	15 043 423
Société de l'assurance automobile du Québec	1 059 657	1 036 362
Ministère de l'Emploi et de la Solidarité sociale	4 325 274	4 277 255
Individuals	6 876 222	6 894 898
Other	359 908	422 519
	<u>\$27 962 458</u>	<u>\$27 674 457</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. EXPENDITURE BY RESPONSIBILITY CENTRE

	Training	General administration	Computer services	Pre-hospital emergency services
Salaries and wages	\$626 300	\$3 666 830	\$1 208 990	\$30 410 617
Fringe benefits ^a	418 613	1 262 834	304 772	7 018 456
Payroll taxes ^b	269 408	901 134	233 696	12 241 071
Medical supplies and medication	9 025	1 358	150	2 331 159
Travelling expenses	10 582	114 617	1 216	48 363
Services purchased (Note 6)	34 581	1 325 959	356 369	1 182 961
Communications	1 592	225 308	1 665	76 161
Building rental		22 386	4 310	1 531 148
Equipment rental		9 016		1 440
Capital leases:				
Interest on bonds	701		5 231	11 935
Amortization of capital assets	29 516	7 464	191 723	1 605 871
Loss (gain) on sale of capital assets				30 579
Uniform purchases and rental	150	2 507		462 782
Automotive equipment expenses	10 013	2 952		3 537 447
Office supplies	6 530	88 651	24 282	141 571
Doubtful accounts and collection charges				1 604 702
Doubtful accounts recovered				(91 478)
Insurance		107 020		
Interest and bank charges	35	1 431		930
Other	5 326	116 393	23 896	72 617
Expenditure recovery	(162 614)	(2 298)		(31 335)
	<u>\$1 259 758</u>	<u>\$7 853 562</u>	<u>\$2 356 300</u>	<u>\$62 186 997</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.

Commu- nications	Quality control and medical inspection	Specialized interventions	Operation of facilities	Total 2007	Total 2006
\$3 373 443	\$339 461	\$1 116 466		\$40 742 107	\$39 068 638
851 069	76 637	235 816		10 168 197	9 605 402
641 592	67 945	389 249		14 744 095	14 076 736
	841	7 246		2 349 779	1 885 128
2 574	2 400	871		180 623	229 018
1 181 506	2 052	2 219	\$174 369	4 260 016	3 869 510
709 911	7 031	2 505		1 024 173	1 069 597
			1 397 219	2 955 063	2 907 103
30 528			65	41 049	277 832
				17 867	64 881
13 130		1 746		1 849 450	2 484 905
		(2 160)		28 419	(4 625)
12 482		15 788		493 709	694 212
		49 639		3 600 051	4 071 207
39 812	1 491	705		303 042	294 432
				1 604 702	1 444 615
				(91 478)	(57 552)
				107 020	101 837
				2 396	1 682
15 230	129	3 903		237 494	324 296
			(33 979)	(230 226)	(167 328)
<u>\$6 871 277</u>	<u>\$497 987</u>	<u>\$1 823 993</u>	<u>\$1 537 674</u>	<u>\$84 387 548</u>	<u>\$82 241 526</u>

CORPORATION D'URGENCE-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**6. SERVICES PURCHASED**

	2007	2006
Computer services	\$89 310	\$90 906
Laundry	359 662	386 700
Maintenance and repairs - premises and equipment	1 408 421	1 287 416
Maintenance and repairs - computer-aided dispatch system	527 022	560 691
Computer software updates	125 403	164 710
Training	106 704	149 083
Legal fees	835 252	379 687
Medical expertise costs	251 821	235 366
Professional fees	324 945	389 339
Relocation of head office	70 241	
Process review, restructuring and strategic aims	144 264	172 754
Other	16 971	52 858
	<u>\$4 260 016</u>	<u>\$3 869 510</u>

7. ACCOUNTS RECEIVABLE

	2007	2006
Ambulance Service Beneficiaries		
Health and social services institutions	\$1 939 297	\$1 959 578
Société de l'assurance automobile du Québec	64 539	61 268
Ministère de l'Emploi et de la Solidarité sociale	317 713	362 171
Individuals	2 970 700	3 006 999
Other	31 348	31 662
	<u>5 323 597</u>	<u>5 421 678</u>
Ministère de la Santé et des Services sociaux		
- subsidies	510 000	286 747
Sales tax receivable	1 174 943	541 990
Other accounts payable	741 069	573 877
	<u>7 749 609</u>	<u>6 824 292</u>
Allowance for doubtful accounts		
Individuals	<u>(1 750 397)</u>	<u>(1 671 522)</u>
	<u>\$5 999 212</u>	<u>\$5 152 770</u>

8. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the short term. The fair value of obligations under capital-lease contracts equals their book value, given that these contracts were negotiated during the fiscal year.

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. CAPITAL ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Computer equipment	\$4 359 107	\$4 090 322	\$268 785
Furniture and equipment	6 194 902	5 270 555	924 347
Automotive equipment	12 615 362	3 954 918	8 660 444
Rolling stock being manufactured	1 331 871		1 331 871
Computer-aided dispatch system	5 981 984	5 976 706	5 278
	<u>30 483 226</u>	<u>19 292 501</u>	<u>11 190 725</u>
Capital assets held under capital leases:			
Automotive equipment	6 946 704	373 961	6 572 743
Equipment	208 857	173 701	35 156
Computer-aided dispatch system	42 043	21 345	20 698
	<u>7 197 604</u>	<u>569 007</u>	<u>6 628 597</u>
	<u>\$37 680 830</u>	<u>\$19 861 508</u>	<u>\$17 819 322</u>
			<u>\$4 244 641</u>

Capital assets totalling \$15 463 090 (2006: \$3 390 672) were acquired, including capital assets of \$6 843 413 (2006: \$0) acquired through capital leases. A sum of \$7 928 785 (2006: \$3 339 639) in cash was paid for the purchase of capital assets. An equipment purchase in the amount \$690 892 is due on March 31, 2007.

The Corporation has a fleet of 98 vehicles intended for resale. Their cost has been amortized in its entirety.

10. AUTHORIZED CREDIT LINE

The Ministère de la Santé et des Services sociaux authorizes the Corporation to borrow to meet its financing needs. As at March 31, 2007 and 2006, there were no authorized borrowings. Any Corporation borrowing contracted with its financial institution in the form of a credit line bears interest at the prime rate.

11. COMMITMENTS UNDER CAPITAL LEASES

	2007	2006
Commitments under capital leases:		
- rates varying from 4.18% to 5.16%, maturing until 2011	\$6 753 770	\$305 279
Instalments due within one year	<u>1 348 696</u>	<u>228 172</u>
	<u>\$5 405 074</u>	<u>\$77 107</u>

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. COMMITMENTS UNDER CAPITAL LEASES (cont'd)**

Minimum payments required on commitments under capital leases are:

2008	\$1 606 546
2009	1 528 110
2010	1 528 110
2011	1 528 110
2012	1 272 798
Total minimum payments required	<u>7 463 674</u>
Amount of interest included in total minimum payments required	<u>709 904</u>
	<u>\$6 753 770</u>

12. FUTURE FRINGE BENEFITS**Pension plans**

With the exception of the ambulance technicians, Corporation staff participates in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death. The Corporation's contributions charged to the year-end statement totalled \$702 731 (2006: \$714 554).

The Corporation's ambulance 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 totalled \$1 412 974 (2006: \$1 606 589).

The Corporation's liability towards these plans is restricted to its employer contributions.

Provisions for vacation time, holidays and sick leave

	Vacation time and holidays	Sick leave	Total 2007	Total 2006
Balance, beginning of year	\$6 223 073	\$(44 914)	\$6 178 159	\$5 838 368
Annual expenses	8 419 098	1 964 020	10 383 118	9 701 583
Benefits paid during the year	<u>(8 173 032)</u>	<u>(1 948 085)</u>	<u>(10 121 117)</u>	<u>(9 361 792)</u>
Balance, end of year	<u>\$6 469 139</u>	<u>\$(28 979)</u>	<u>\$6 440 160</u>	<u>\$6 178 159</u>

This provision is included in the item "Accounts payables and accrued liabilities".

13. 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.

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. COMMITMENTS**

The Corporation is committed under long-term contracts for office space and equipment and equipment maintenance terminating on various dates up to June 2012.

Payments for the year ended March 31, 2007, totalled \$3 178 675 (2006: \$2 997 443). Minimum payments for the coming fiscal years are:

2008	\$3 375 943
2009	3 382 795
2010	2 431 528
2011	1 557 709
2012	753 885
2013	387 229
	<u>\$11 889 089</u>

The Corporation committed to purchasing 129 ambulance vehicles for \$18 533 900; 111 were delivered for \$15 964 984. The remaining balance is \$2 588 916 over the next year.

Provincial Activities Fund

Under a contract signed by the Ministère de la Santé et des Services sociaux, the Provincial Activities Fund will have to pay a total of US\$255 733, ending in 2008, for the implementation of a call prioritization system to be used throughout Québec. The instalment payable in the next fiscal year, converted into Canadian dollars as at March 31, 2007, is \$280 999.

Provincial Fund for the management of ambulance technicians' individual protective clothing

Under a contract signed by the Corporation, the Provincial Fund for the management of ambulance technicians' individual protective clothing will have to pay a maximum of \$750 000 plus tax over the next four years for the management of individual protective clothing for Québec's ambulance technicians.

15. CONTINGENCY

In May 2006, an ambulance supplier submitted a claim for \$3 976 316 to the Québec Superior Court for possible damages following the cancellation of a contract between the Corporation and the supplier in question.

In the opinion of Corporation management, this claim is unfounded and is being contested. Since the outcome is uncertain and the amount impossible to estimate, no provision has been posted in the financial statements.

16. ADDITIONAL CASH FLOW INFORMATION

	<u>2007</u>	<u>2006</u>
Interest paid	\$20 263	\$66 563
Interest earned	547 209	349 552

17. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

CORPORATION D'URGENCES-SANTÉ**MANAGEMENT'S REPORT**

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

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

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

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

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

Daniel Adam
President and Chief Executive Officer

Jean Girouard
Director, Finance and vehicle management

Montréal, May 29, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Corporation d'urgences-santé as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. I have also audited the balance sheet of the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing, which are administered by the Corporation, as at March 31, 2007, and their statements of changes in fund balance for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation, the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing as at March 31, 2007 and the results of the Corporation's operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 29, 2007

PUBLIC CURATOR (THE)
(R.S.Q., c. C-81)

STATEMENT OF RESULTS FOR ACCOUNTS ADMINISTERED
for the year ended December 31, 2006

	Curatorships and tutorships		Unclaimed property (Note 3)
	31-12-2006 (9 months)	31-03-2006 (12 months)	31-03-2006 (12 months)
REVENUES			
Employment assistance	\$42 263 617	\$54 390 786	\$922
Old age pension	34 543 795	42 814 526	10 896
Régie des rentes du Québec	10 428 322	12 905 011	4 493
Other pensions	9 099 749	11 618 733	(57 745)
Tax credits and income	5 180 583	5 085 093	369 601
Société de l'assurance automobile du Québec	3 151 942	4 553 918	1 152
Inheritance	2 622 814	4 694 534	2 900
Rent	662 180	939 645	54 308
Interest and dividends	344 508	376 653	28 569
Insurance	290 682	219 239	
Compensation for financial losses	138 936	66 120	31 086
Compensation received from government agencies	29 000		
Compensation for disbursements linked to dams without operators			349 916
Other revenue	989 351	898 349	999 125
	<u>109 745 479</u>	<u>138 562 607</u>	<u>1 795 223</u>
EXPENSES			
Lodging and allowance for petty cash	90 690 035	114 700 074	94
Public Curator of Québec's fees	3 955 631	4 425 068	1 981 662
Medical expenses	3 399 451	4 282 626	
Income and taxes	2 343 552	2 497 758	1 483 908
Funeral services	2 020 175	2 417 204	(2 618)
Public services	905 637	1 138 898	1 138
Legal costs	652 510	1 108 173	114 243
Maintenance and repairs - buildings	580 194	618 229	50 373
Insurance premiums	440 712	492 884	81 702
Maintenance and repairs - dams without operators			349 916
Interest expenses	85 036	128 166	243
Loss (gain) on sale of assets	243 851	(1 032 292)	471 714
Other expenses	2 064 586	2 716 220	1 665 465
	<u>107 381 370</u>	<u>133 493 008</u>	<u>6 197 840</u>
INCOME (LOSS) BEFORE THE FOLLOWING ITEMS	2 364 109	5 069 599	(4 402 617)
Reassessment of assets (Note 7)	3 172 286	8 306 065	2 740 589
Reassessment of liabilities (Note 7)	(326 522)	(849 784)	(3 952 742)
Realized income from investment of common trust funds (Note 8)	3 004 034	6 656 657	766 428
Change in unrealized value increases or decreases on grouped fund investments (Note 9)	3 930 994	3 313 646	(94 254)
	<u>\$12 144 901</u>	<u>\$22 496 183</u>	<u>\$(4 942 596)</u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)BALANCE SHEET FOR ACCOUNTS ADMINISTERED
as at December 31, 2006

	Curatorships and tutorships		Unclaimed property (Note 3)
	31-12-2006	31-03-2006	31-03-2006
ASSETS			
Cash and term deposits	\$19 483 652	\$22 088 249	\$1 079 230
Prepaid expenses	2 563 296	2 711 747	
Shares	3 595 144	3 615 515	3 401 149
Bonds	4 740 879	3 614 653	1 249 616
Mutual	6 166 260	4 926 845	6 829 322
RRSP, QSSP, RRIF	10 825 758	10 101 647	2 722 847
Grouped fund investments (Note 4)	182 277 199	177 487 840	60 797 154
Immoveables	35 376 503	32 801 146	10 351 277
Life insurance policy buy back value	2 704 916	2 684 241	
Prior arrangements for funeral services	2 998 305	2 868 931	
Notes and other receivables (Note 5)	9 648 138	8 333 088	1 122 130
Valuable objects and property in storage	528 727	519 136	69 761
Motor vehicles	387 840	409 282	46 440
Mortgage loans	192 486	348 221	12 500
Other assets	107 132	97 488	2 008
	<u>\$281 596 235</u>	<u>\$272 608 029</u>	<u>\$87 683 434</u>
LIABILITIES			
Payables	\$12 784 932	\$12 105 016	\$67 527 446
Proceeds collected in advance	4 156 025	4 068 735	
Mortgage loans	1 931 661	1 482 907	887 521
Grouped fund payables (Note 6)	2 639 115	1 783 272	1 082 120
Deposits on offers to purchase	106 280	55 279	58 541
	<u>21 618 013</u>	<u>19 495 209</u>	<u>69 555 628</u>
NET ASSETS OF ACCOUNTS ADMINISTERED	<u>259 978 222</u>	<u>253 112 820</u>	<u>18 127 806</u>
	<u>\$281 596 235</u>	<u>\$272 608 029</u>	<u>\$87 683 434</u>

CONTINGENCIES (Note 11)**SUBSEQUENT EVENT** (Note 12)

The notes are an integral part of these financial statements.

Accepted and approved,
Diane Lavallée
Public Curator of Québec

PUBLIC CURATOR (THE)STATEMENT OF CHANGE IN NET ASSETS OF ACCOUNTS ADMINISTERED
for the year ended December 31, 2006

	Curatorships and tutorships		Unclaimed property (Note 3)
	31-12-2006 (9 months)	31-03-2006 (12 months)	31-03-2006 (12 months)
BALANCE, BEGINNING OF YEAR	<u>\$253 112 820</u>	<u>\$241 578 824</u>	<u>\$25 530 081</u>
NET INCOME (NET LOSS)	<u>12 144 901</u>	<u>22 496 183</u>	<u>(4 942 596)</u>
New assets	25 776 955	36 240 397	46 762 821
New liabilities	(5 744 436)	(7 075 520)	(15 087 228)
Remittance of property to heirs and assigns (Note 10)	(25 817 405)	(38 431 118)	(10 415 430)
Deletion and cancellation of certain liabilities	1 075 670	1 440 650	13 815 209
Deletion and cancellation of certain assets	(570 283)	(1 295 622)	(4 027 143)
Transfer – unclaimed curatorship and tutorship accounts (Note 10)		(1 840 974)	1 840 974
Transfer of amounts from the liquidation of property under “Accounts payable to the Minister of Finance” (Note 3)			(43 160 666)
Transfer from “Account payable to the Minister of Finance” (Note 3)			7 811 784
	<u>(5 279 499)</u>	<u>(10 962 187)</u>	<u>(2 459 679)</u>
BALANCE, END OF YEAR	<u><u>\$259 978 222</u></u>	<u><u>\$253 112 820</u></u>	<u><u>\$18 127 806</u></u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)NOTES TO THE FINANCIAL STATEMENTS
as at December 31, 2006**1. CONSTITUTION AND NATURE OF ACTIVITIES**

The Public Curator is a person appointed by the Government under the Public Curator Act (R.S.Q., c. C-81) primarily to:

- represent persons of full age considered not competent to varying degrees, in order to ensure their moral and physical well-being and protect their rights;
- monitor, inform and assist in their administration private curators and tutors appointed to represent persons of full age who are not competent; fulfil the same duties toward tutors for minors and occasionally assume that tutorship role for the property of minors.

The Public Curator receives fees for representing persons, administering the property entrusted to it, monitoring private curatorships and tutorships, managing portfolios under joint administration and other duties conferred by the legislation.

The Public Curator changed the fiscal-year end of the financial statements of accounts administered from December 31 to March 31 to better represent the normal cycle of operations of the property administered by the Public Curator.

2. ACCOUNTING POLICIES

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

The assets and liabilities administered on behalf of persons are posted when the Public Curator's jurisdiction is established and as their existence becomes known.

The statement of cash flows is not shown as it would not provide any additional useful information on the cash flows during the year.

The various assets and liabilities are valued as follows:

- **Cash 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.
- **Prepaid expenses**
Prepaid expenses correspond to amounts paid for services to be rendered in future fiscal years.
- **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**
Capital assets, at standardized property assessment value.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

2. ACCOUNTING POLICIES (cont'd)

The various assets and liabilities are valued as follows: (cont'd)

- **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.
- **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 and liabilities cannot be determined reasonably, it is recorded as \$1.

No latent income tax resulting from these assets is recorded to diminish the value of the above-mentioned assets.

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. At March 31, 2006, the grouped funds included a registered retirement 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, note 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.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Revenues collected in advance**

Revenues collected in advance represent benefits received before the period in which they will be paid out.

Recording of results of operations of accounts administered

The Cash Fund's net investment income is credited monthly to curatorship and tutorship accounts. The Revenue Fund's net income is paid monthly into the Cash Fund of each shareholder's account. The Diversified Fund's net income is reinvested quarterly in each shareholder's account.

3. UNCLAIMED PROPERTY

On April 1, 2006, unclaimed property administered by the Public Curator was transferred to the Minister of Revenue as provided for in the Act to abolish certain public bodies and transfer administrative responsibilities (R.S.Q., c. 44) passed on December 16, 2005. Thus, the Minister of Revenue remits earnings from the sale of unclaimed property to the Minister of Finance.

4. GROUPED FUND INVESTMENTS

	Cash Fund		Revenue Fund	
	31-12-2006	31-03-2006	31-12-2006	31-03-2006
Short term				
Cash on hand	\$9 858 843	\$11 948 258	\$816 970	\$661 112
Short-term investments	37 035 422	89 577 146		
Interest and dividends receivable	434 832	618 907	204 605	544 454
Advance to Minister of Revenue of Québec		1 023 915		
Revenue Fund receivable, without interest or terms of repayment (Note 6)	126 855	239 984		
Diversified Fund receivable, without interest or terms of repayment (Note 6)	235 018	456 746		
	<u>47 690 970</u>	<u>103 864 956</u>	<u>1 021 575</u>	<u>1 205 566</u>
Long term *				
Bonds			25 244 772	24 835 259
Shares				
Mortgage certificates			1 109 940	1 233 341
			<u>26 354 712</u>	<u>26 068 600</u>
	<u>\$47 690 970</u>	<u>\$103 864 956</u>	<u>\$27 376 287</u>	<u>\$27 274 166</u>

BREAKDOWN OF GROUPED FUND INVESTMENTS**Accounts administered**

Curatorships and tutorships	\$47 690 970	\$49 027 537	\$27 376 287	\$27 274 166
Unclaimed property (Note 3)		54 837 419		
	<u>\$47 690 970</u>	<u>\$103 864 956</u>	<u>\$27 376 287</u>	<u>\$27 274 166</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
31-12-2006	31-03-2006	31-12-2006	31-03-2006	31-12-2006	31-03-2006
\$1 980 115	\$1 748 946			\$12 655 928	\$14 358 316
491 030	1 262 703		\$124 859	37 035 422	89 702 005
			101 909	1 130 467	2 527 973
					1 023 915
	111 938			126 855	351 922
				235 018	456 746
2 471 145	3 123 587		226 768	51 183 690	108 420 877
60 332 598	57 436 179		5 732 967	85 577 370	88 004 405
42 380 852	38 407 391			42 380 852	38 407 391
2 025 347	2 218 980			3 135 287	3 452 321
104 738 797	98 062 550		5 732 967	131 093 509	129 864 117
<u>\$107 209 942</u>	<u>\$101 186 137</u>		<u>\$5 959 735</u>	<u>\$182 277 199</u>	<u>\$238 284 994</u>
\$107 209 942	\$101 186 137		\$5 959 735	\$182 277 199	\$177 487 840
<u>\$107 209 942</u>	<u>\$101 186 137</u>		<u>\$5 959 735</u>	<u>\$182 277 199</u>	<u>\$238 284 994</u>

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

4. GROUPED FUND INVESTMENTS (cont'd)*** Long-term investment at March 31, 2006**

	<u>Terms</u>	<u>Interest rates</u>	<u>Revenue Fund</u>	<u>Diversified Fund</u>	<u>Total</u>
			<u>31-12-2006</u>	<u>31-12-2006</u>	<u>31-12-2006</u>
Federal government bonds	2 – 27 years	3.75% - 5.75%	\$3 623 615	\$10 507 903	\$14 131 518
Provincial government bonds	3 – 30 years	5.00% - 6.25%	16 165 396	38 897 235	55 062 631
Corporate bonds	2 – 28 years	4.50% - 7.00%	6 565 701	12 952 807	19 518 508
Corporate shares				42 380 852	42 380 852
			<u>\$26 354 712</u>	<u>\$104 738 797</u>	<u>\$131 093 509</u>

Short-term investments include T-bills, discount notes and bankers' acceptances. Interest rates vary from 4.06% to 4.47%. These investments mature at varying dates until September 2007.

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.

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

5. BILLS AND OTHER RECEIVABLES – MORTGAGE LOANS

A \$4 921 079 (\$4 426 598 at March 31, 2006) provision for bad debts was deducted from the balance of bills and other receivables and mortgage loans.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

6. GROUPED FUND PAYABLES

	Cash Fund		Revenue Fund	
	31-12-2006	31-03-2006	31-12-2006	31-03-2006
Bank overdraft				
Accounts payable	\$175 885	\$261 095	\$7 529	\$10 634
Owed to the Consolidated Revenue Fund, without interest or terms of repayment	808 603	1 168 331		
Owed to the Cash Fund, without interest or terms of repayment (Note 4)			126 855	239 984
Owed to the Diversified Fund, without interest or terms of repayment (Note 4)				111 938
Accounts payable to the Minister of Finance (Note 3)		564 320		
Accounts payable to the Minister of Revenu du Québec, at rate of 2.5%	1 262 783			
	<u>\$2 247 271</u>	<u>\$1 993 746</u>	<u>\$134 384</u>	<u>\$362 556</u>

BREAKDOWN OF GROUPED FUND PAYABLES**Accounts administered**

Curatorships and tutorships	\$2 247 271	\$941 111	\$134 384	\$362 556
Unclaimed property (Note 3)		1 052 635		
	<u>\$2 247 271</u>	<u>\$1 993 746</u>	<u>\$134 384</u>	<u>\$362 556</u>

7. RE-EVALUATION OF ASSETS AND LIABILITIES

The items regarding re-evaluation assets and liabilities represent the annual change in their fair values, with the exception of adjustments to the group funds presented separately.

8. NET REALIZED GROUPED FUND INVESTMENT INCOME

	Cash Fund		Revenue Fund	
	31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)
Revenue				
Interest on bonds and short-term investments	\$1 443 806	\$3 256 692	\$1 025 668	\$1 503 070
Dividends				
Gains (losses) on sale of investments			(329 877)	(88 946)
	<u>1 443 806</u>	<u>3 256 692</u>	<u>695 791</u>	<u>1 414 124</u>
Expenses				
Administrative fees – Consolidated Revenue Fund	535 402	1 669 437	403 418	566 098
Taxes on administrative fees and other expenses	76 117	252 580	56 670	85 056
Daycare costs and other services	94 653	106 667	27 840	38 180
	<u>706 172</u>	<u>2 028 684</u>	<u>487 928</u>	<u>689 334</u>
Net realized investment income	<u>\$737 634</u>	<u>\$1 228 008</u>	<u>\$207 863</u>	<u>\$724 790</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
31-12-2006	31-03-2006	31-12-2006	31-03-2006	31-12-2006	31-03-2006
			\$706		\$706
\$22 442	\$22 859		28 779	\$205 856	323 367
				808 603	1 168 331
235 018	456 746			361 873	696 730
					111 938
					564 320
				1 262 783	
<u>\$257 460</u>	<u>\$479 605</u>		<u>\$29 485</u>	<u>\$2 639 115</u>	<u>\$2 865 392</u>

\$257 460	\$479 605		\$29 485	\$2 639 115	\$1 783 272
					1 082 120
<u>\$257 460</u>	<u>\$479 605</u>		<u>\$29 485</u>	<u>\$2 639 115</u>	<u>\$2 865 392</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)
\$2 453 367	\$3 147 951		\$206 818	\$4 922 841	\$8 114 531
466 405	549 544			466 405	549 544
948 919	4 038 302		3 952	619 042	3 953 308
<u>3 868 691</u>	<u>7 735 797</u>		<u>210 770</u>	<u>6 008 288</u>	<u>12 617 383</u>
1 532 662	1 933 033		129 058	2 471 482	4 297 626
215 235	290 438		9 034	348 022	637 108
61 110	80 691		9 298	183 603	234 836
<u>1 809 007</u>	<u>2 304 162</u>		<u>147 390</u>	<u>3 003 107</u>	<u>5 169 570</u>
<u>\$2 059 684</u>	<u>\$5 431 635</u>		<u>\$63 380</u>	<u>\$3 005 181</u>	<u>\$7 447 813</u>

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

8. NET REALIZED GROUPED FUND INVESTMENT INCOME (cont'd)**BREAKDOWN OF REALIZED INVESTMENT INCOME**

	Cash Fund		Revenue Fund	
	31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)
Accounts administered				
Curatorships and tutorships	\$736 487	\$500 250	\$207 863	\$724 772
Unclaimed property (Note 3)		703 030		18
	<u>736 487</u>	<u>1 203 280</u>	<u>207 863</u>	<u>724 790</u>
Minister of Finance (Note 3)	<u>1 147</u>	<u>24 728</u>		
	<u>\$737 634</u>	<u>\$1 228 008</u>	<u>\$207 863</u>	<u>\$724 790</u>

9. CHANGE IN UNREALIZED GROUPED FUND INVESTMENT GAINS (LOSSES)

	Revenue Fund	
	31-12-2006 (9 months)	31-03-2006 (12 months)
Unrealized cumulative investment gains (losses) at the beginning of the fiscal year	\$(295 851)	\$209 006
Change in unrealized investment gains (losses) resulting from fluctuations in fair value during the fiscal year	<u>375 343</u>	<u>(504 857)</u>
Unrealized cumulative investment gains (losses) at the end of the fiscal year	<u>\$79 492</u>	<u>\$(295 851)</u>
 Cost of bonds	 \$25 180 779	 \$25 150 008
Cost of shares		
Cost of mortgage certificates	\$1 094 441	\$1 214 443

10. PROPERTY REMITTED

This item corresponds to property remitted to the rightful owners. Since April 1, 2006, it includes property remitted to the Minister of Revenue for the estates of deceased persons represented who have no heirs.

Diversified Fund		Registered Retirement Plan Fund		Total	
31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)
\$2 059 684	\$5 431 635			\$3 004 034	\$6 656 657
			\$63 380		766 428
2 059 684	5 431 635		63 380	3 004 034	7 423 085
				1 147	24 728
\$2 059 684	\$5 431 635		\$63 380	\$3 005 181	\$7 447 813

Diversified Fund		Registered Retirement Plan Fund		Total	
31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)	31-12-2006 (9 months)	31-03-2006 (12 months)
\$13 823 221	\$10 004 731		\$3 718	\$13 527 370	\$10 217 455
3 555 651	3 818 490		(94 241)	3 930 994	3 219 392
\$17 378 872	\$13 823 221		\$(90 523)	\$17 458 364	\$13 436 847

\$58 901 048	\$57 150 725		\$5 823 489	\$84 081 827	\$88 124 222
\$26 473 930	\$24 914 642			\$26 473 930	\$24 914 642
\$1 985 076	\$2 174 094			\$3 079 517	\$3 388 537

PUBLIC CURATOR (THE)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006

11. CONTINGENCIES

Various legal and non-legal proceedings involving the Public Curator are currently under way. The Public Curator cannot foresee the outcome of these disputes or estimate the value of financial compensation that might result.

12. SUBSEQUENT EVENT

At December 31, 2006, the Public Curator, through the grouped fund investments, held approximately \$10 million in non-bank asset-backed commercial papers (ABCPs). Since these papers were renewed in the first half of 2007, the fair value on the date of the balance sheet is adequate. On the date the financial statements were prepared, since August 2007, there had been a liquidity crisis on the ABCP market. Given this crisis and the moratorium under way, if the fair value of these assets renewed in 2007 decreased, it would be posted in the renewal fiscal year, i.e. 2007, if applicable.

13. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2006.

MANAGEMENT'S REPORT

The financial statements of the Public Curator of Québec were prepared 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 Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

The Public Curator acknowledges that he is responsible for managing the agency's business in keeping with the statutes and regulations governing it.

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 Canadian generally accepted auditing standards. His report states the nature and scope of the audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to his audit.

Diane Lavallée
Public Curator of Québec

Sylvain Gendreau
Director, General of Administration

Pierre Roy
Director, Financial and Material Resources

Montréal, December 7, 2007

PUBLIC CURATOR (THE)**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Public Curator of Québec as at December 31, 2006 and the statements of results and change in net assets of accounts administered for the year then ended. These financial statements are the responsibility of the Public Curator. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Public Curator's financial position as at March 31, 2006 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 7, 2007

ÉCOLE NATIONALE DE POLICE DU QUÉBEC
(R.S.Q., c. P-13.1)

STATEMENT OF RESULTS AND EQUITY
for the year ended June 30, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Police force contributions (Note 11)	\$9 581 405	\$9 202 072
Gouvernement du Québec subsidy		
Rent	7 062 100	7 339 600
Research project	8 724	82 801
Lodging (Notes 3 and 11)	3 291 538	3 814 411
Training (Notes 3 and 11)	7 208 899	5 292 081
Interest	59 717	22 124
Other	464 583	257 622
	<u>27 676 966</u>	<u>26 010 711</u>
EXPENSES		
Salaries and fringe benefits (Note 4)	14 282 700	13 690 719
Transportation and communications	713 328	591 460
Professional services	1 065 140	993 421
Maintenance and repairs	171 130	167 443
Rent – Société immobilière du Québec	8 443 602	7 764 747
Equipment rental, etc.	239 837	215 143
Supplies, teaching materials, etc. (Note 5)	1 713 207	1 391 105
Amortization of capital assets	1 021 906	1 015 770
	<u>27 650 850</u>	<u>25 829 808</u>
EXCESS OF REVENUES OVER EXPENSES	26 116	180 903
EQUITY, BEGINNING OF YEAR	<u>958 052</u>	<u>777 149</u>
EQUITY, END OF YEAR	<u><u>\$984 168</u></u>	<u><u>\$958 052</u></u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

BALANCE SHEET
as at June 30, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$4 600 670	\$3 595 887
Accounts receivable (Note 11)	1 902 079	2 235 908
Police force contribution receivable		
First instalment	1 019 430	290 767
Second instalment	3 006 678	2 940 600
Prepaid rent - Société immobilière du Québec	5 296 575	5 127 011
Inventory	474 846	446 763
	<u>16 300 278</u>	<u>14 636 936</u>
Capital assets (Note 6)	<u>2 743 500</u>	<u>3 016 364</u>
	<u><u>\$19 043 778</u></u>	<u><u>\$17 653 300</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		
Wages	\$1 537 990	\$1 121 449
Rent – Société immobilière du Québec	357 769	
Other	1 626 484	1 354 998
Provision for vacation time	815 588	753 885
Deferred revenue (Note 8)		
Police force contributions	7 288 071	7 107 131
Gouvernement du Québec subsidy	5 296 575	5 296 575
Other	282 705	337 817
	<u>17 205 182</u>	<u>15 971 855</u>
Long-term liabilities		
Provision for sick leave (Note 9)	<u>854 428</u>	<u>723 393</u>
	<u>18 059 610</u>	<u>16 695 248</u>
EQUITY	<u>984 168</u>	<u>958 052</u>
	<u><u>\$19 043 778</u></u>	<u><u>\$17 653 300</u></u>

COMMITMENTS (Note 10)

For the Board of Directors,
Daniel McMahon, Chairman, Board of Directors
Michel Beaudoin, Director General

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS June 30, 2006

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

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

The statement of cash flows is not shown as it would not provide any additional useful information on the École's cash flows during the year.

Inventory

Office supplies, foodstuff, ammunition and clothing are valued in accordance with the specific identification method.

Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method as follows:

Furniture and equipment	5 and 10 years
Automotive equipment	5 years
Leasehold improvements	5 years
Computer equipment	3 years
Computer software	3 and 5 years

Pension plans

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

Proceeds recording

Police force contributions and Gouvernement du Québec subsidies are posted to proceeds in the fiscal year in which the related expenses are incurred.

Proceeds from service delivery are posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The services have been rendered;
- The service price is determined or can be determined;
- Recovery is reasonably certain.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006

3. LODGING AND TRAINING

	Lodging		Training	
	2006	2005	2006	2005
Rookie training	\$1 485 009	\$1 757 330	\$2 845 118	\$2 042 864
Police officer training	617 201	1 123 637	1 696 922	1 106 392
Native training	327 746	195 046	779 127	599 011
Customized training	409 757	163 436	1 321 010	826 886
Assessment centre for police personnel	43 092	58 099	566 722	716 928
Other	408 733	516 863		
	<u>\$3 291 538</u>	<u>\$3 814 411</u>	<u>\$7 208 899</u>	<u>\$5 292 081</u>

4. SALARIES AND FRINGE BENEFITS

	2006	2005
Police officers – Sûreté du Québec	\$418 228	\$594 090
Municipal police officers	1 275 716	1 321 250
Instructors and lecturers	380 839	315 215
Other employees	12 207 917	11 460 164
	<u>\$14 282 700</u>	<u>\$13 690 719</u>

5. SUPPLIES, TEACHING MATERIALS, ETC.

	2006	2005
Teaching materials	\$826 204	\$654 534
Foodstuff and dwelling	611 200	561 523
Stationery, office supplies and articles	133 041	120 357
Furniture and equipment	142 762	54 691
	<u>\$1 713 207</u>	<u>\$1 391 105</u>

6. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Capital assets			
Furniture and equipment	\$3 328 502	\$1 888 425	\$1 440 077
Automotive equipment	1 373 523	951 648	421 875
Leasehold improvements	635 842	464 597	171 245
Computer equipment	909 148	699 161	209 987
	<u>6 247 015</u>	<u>4 003 831</u>	<u>2 243 184</u>
Intangible assets			
Software	1 223 795	723 479	500 316
	<u>\$7 470 810</u>	<u>\$4 727 310</u>	<u>\$2 743 500</u>
			<u>\$3 016 364</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006**6. CAPITAL ASSETS (cont'd)**

Acquisitions of capital assets totalled \$827 315 (2005: \$812 002). The sale of capital assets generated a net loss of \$45 898 (2005: no let loss) and proceeds of \$17 059 (2005: no proceeds).

7. 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's Financing Fund.

A credit-line agreement with the Gouvernement du Québec's Financing Fund provides for a daily interest rate that equals banker's one-month acceptances plus 0.3%. At June 30, 2006, the École had no short-term borrowings.

Further, the École has a \$300 000 credit line at the prime rate with a financial institution. At June 30, 2006, the École had not borrowed on this credit line.

8. DEFERRED REVENUE

Deferred revenue from police force contributions represents the portion of the contribution that will be earned the following fiscal year.

Deferred revenue from the subsidy represents the amount received from the Gouvernement du Québec to fund the École's rental for the following fiscal year.

Other deferred revenue comprises primarily lodging income received in advance for the basic police-training program.

9. FUTURE FRINGE BENEFITS**Pension Plans**

École staff participates in the Pension Plan for Senior Official (PPSO), the Government and Public Employees Retirement Plan (RREGOP), the Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) or the Pension of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The École pays employer contributions for staff members released by the Sûreté du Québec and who contribute to the SPMSQ. The École's contributions charged to the year-end statement total \$357 660 (2005: \$446 174). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

	2006	2005
Balance, beginning of year	\$723 393	\$750 022
Annual expenses	291 307	131 824
Benefits paid during the year	(160 272)	(158 453)
Balance, end of year	\$854 428	\$723 393

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) June 30, 2006

10. COMMITMENTS

The École is committed to the Société immobilière du Québec, under long-term leases terminating in 2028, under building rental and various other contracts (goods and services) expiring by 2011.

The fiscal year's building rental expenses total \$8 443 602 (2005: \$7 764 747). Goods and services rentals related to these commitments total \$348 285 (2005: \$339 367). Minimum future payments are:

Year	Buildings	Goods and services
2007	\$7 919 115	\$317 210
2008	7 919 115	279 348
2009	7 919 115	279 348
2010	7 919 115	279 348
2011	7 919 115	18 515
2012 and thereafter	137 224 955	
	<u>\$176 820 530</u>	<u>\$1 173 769</u>

11. RELATED PARTY TRANSACTIONS

	2006	2005
Revenues		
Police force contributions	\$3 614 814	\$3 572 492
Lodging	704 813	921 333
Training	1 462 050	1 269 130
Accounts receivable	313 658	675 044

In addition to the related party transactions disclosed in its financial statements and measured 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.

12. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value.

13. COMPARATIVE FIGURES

Certain figures in the financial statements ending June 30, 2005 were reclassified for consistency with the presentation adopted in 2006.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

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

Michel Beaudoin
Director General

Daniel Jean, CMA
Director, Administrative and Technological Support

Nicolet, September 8, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the École nationale de police du Québec as at June 30, 2006 and the statement of results and equity for the year then ended. These financial statements are the responsibility of the École's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the École as at June 30, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 8, 2006

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC
(R.S.Q., c. s-3.4)

STATEMENT OF RESULTS AND SURPLUS
for the year ended June 30, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Gouvernement du Québec subsidy	\$933 800	\$1 200 000
Training	1 024 069	283 972
Interest	<u>4 912</u>	<u>6 621</u>
	<u>1 962 781</u>	<u>1 490 593</u>
EXPENSES		
Salaries and fringe benefits	885 675	868 217
Travel costs	38 677	43 998
Communication	13 861	25 015
Professional services	33 080	83 164
Advertising and promotion	62 699	67 582
Rent	116 127	113 252
Development of training programs and teaching materials	19 206	54 566
Furniture and supplies	32 118	24 399
Teaching materials	262 068	41 980
Information systems	233 780	91 286
Financial charges	5 255	2 814
Amortization of capital assets	102 472	129 307
Gain (loss) on sale of assets	<u>583</u>	<u>(600)</u>
	<u>1 805 601</u>	<u>1 544 980</u>
EXCESS OF REVENUES OVER EXPENSES	157 180	(54 387)
SURPLUS, BEGINNING OF YEAR	<u>151 295</u>	<u>205 682</u>
SURPLUS, END OF YEAR	<u>\$308 475</u>	<u>\$151 295</u>

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

BALANCE SHEET
as at June 30, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 057 198	\$60 636
Accounts receivable	197 851	47 391
Prepaid expenses	24 216	33 204
Stocks	2 747	46 674
	<u>1 282 012</u>	<u>187 905</u>
Capital assets (Note 3)	<u>75 891</u>	<u>175 178</u>
	<u><u>\$1 357 903</u></u>	<u><u>\$363 083</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$85 788	\$190 903
Deferred revenue	963 640	20 885
	<u>1 049 428</u>	<u>211 788</u>
SURPLUS	<u>308 475</u>	<u>151 295</u>
	<u><u>\$1 357 903</u></u>	<u><u>\$363 083</u></u>

On behalf of the Board of Directors,
Serge Tremblay
Chairman, Board of Directors

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

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 École's mission 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

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates. The statement of cash flows is not shown as it would not provide any additional useful information on the École's cash flows during the year.

Inventory

Inventories of books and textbooks are assessed at the lower of cost or net realization value. Cost is calculated using the specific identification method.

Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method and the following rates:

Capital assets	
Leasehold improvements	20%
Computer equipment	33 1/3%
Furniture and equipment	20%
Other equipment	33 1/3%
Intangible assets	
Software	33 1/3%

Pension plans

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

Proceeds reporting

The Gouvernement du Québec subsidy is posted to proceeds in the fiscal year in which the related expenses are incurred.

Proceeds from training are posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The services have been rendered;
- The service price is determined or can be determined;
- Recovery is reasonably certain.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006**3. CAPITAL ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net Value
Capital assets			
Leasehold improvements	\$210 345	\$203 162	\$40 893
Computer equipment	158 860	158 058	21 263
Furniture and equipment	130 270	102 046	60 537
Other equipment	9 308	9 161	905
	<u>508 783</u>	<u>472 427</u>	<u>123 598</u>
Tangible assets			
Software	<u>78 670</u>	<u>39 135</u>	<u>51 580</u>
	<u>\$587 453</u>	<u>\$511 562</u>	<u>\$175 178</u>

Capital asset acquisitions for the fiscal year totalled \$14 478 (2005: \$38 363).

4. PENSION PLANS

École staff participates in the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (PPMP) and the Teachers Pension Plan (TPP). These inter-enterprise defined-benefit plans include guaranteed payments upon retirement and death. Employer contributions charged to the year-end statement total \$34 230 (2005: \$32 461). The École's liability towards these Government plans is restricted to its employer contributions.

5. 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.

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.

7. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

The 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 manner 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Guy Lafortune
Acting Director General

Laval, September 18, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the École nationale des pompiers du Québec as at June 30, 2006 and the statement of results and surplus for the year then ended. These financial statements are the responsibility of the École's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the École as at June 30, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 18, 2006

FINANCEMENT-QUÉBEC
(R.S.Q., c. F-2.01)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
NET INTEREST INCOME		
Interest on loans	555 561	517 404
Amortization of discounts and premiums on loans	683	668
Interest on borrowings and advances	(581 985)	(524 203)
Amortization of discounts and premiums on borrowings and advances	4 822	8 233
Interest on short-term investments	<u>22 484</u>	<u>4 183</u>
	----- 1 565	----- 6 285
OTHER OPERATIONS		
Net issuing costs charged to borrowers	4 867	5 661
Administration costs charged to borrowers	<u>2 455</u>	<u>2 543</u>
	----- 7 322	----- 8 204
	<u>8 887</u>	<u>14 489</u>
OPERATING AND ADMINISTRATIVE EXPENSES		
Wages, salaries and allowances	283	245
Professional, administrative and other services	177	89
Transportation and communications	3	
Service agreement with the Financing Fund	698	577
Amortization of capital assets		1
Other	<u>45</u>	<u>10</u>
	<u>1 206</u>	<u>922</u>
NET INCOME	7 681	13 567
RETAINED EARNINGS, BEGINNING OF YEAR	<u>66 648</u>	<u>53 081</u>
RETAINED EARNINGS, END OF YEAR	<u><u>74 329</u></u>	<u><u>66 648</u></u>

FINANCEMENT-QUÉBEC**BALANCE SHEET**

(in thousands of dollars)

	March 31, 2007	March 31, 2006
ASSETS		
Loans (Note 3)	12 096 002	11 014 245
Accrued interest on loans	190 410	171 082
	<u>12 286 412</u>	<u>11 185 327</u>
Cash on hand	35	100
Short-term investments (Note 4)	47 925	
Accounts receivable	897	302
	<u>12 335 269</u>	<u>11 185 729</u>
LIABILITIES		
Borrowings (Note 5)	11 056 000	9 914 680
Advances from the Consolidated Revenue Fund (Note 6)	1 003 839	1 011 154
Interest accrued on borrowings and advances	180 978	168 852
Premiums and discounts deferred on borrowings and advances	7 660	12 534
Accounts payable	633	56
Deferred revenue	1 830	1 805
	<u>12 250 940</u>	<u>11 109 081</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 8)	100	100
Contributed surplus	9 900	9 900
Retained earnings	74 329	66 648
	<u>12 335 269</u>	<u>11 185 729</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Nathalie Parenteau, Executive Vice-President
 Bernard Turgeon, President and CEO

FINANCEMENT-QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net income	7 681	13 567
Adjustments for:		
Amortization of discounts and premiums on loans	(683)	(668)
Amortization of discounts and premiums on borrowings and advances	(4 822)	(8 233)
Amortization of capital assets	<u>1</u>	<u>1</u>
	----- 2 176	----- 4 667
Change in non-cash items related to operations:		
Accrued interest on loans	(19 328)	(6 583)
Accounts receivable	(595)	(80)
Accrued interest on borrowings and advances	12 126	6 434
Accounts payable	577	(7 460)
Deferred revenue	<u>25</u>	<u>(562)</u>
	----- (7 195)	----- (8 251)
Cash flows from operating activities	<u>(5 019)</u>	<u>(3 584)</u>
INVESTMENT ACTIVITIES		
Loans	(2 495 063)	(2 548 898)
Loan repayment	<u>1 413 989</u>	<u>1 074 292</u>
Cash flows for investment activities	<u>(1 081 074)</u>	<u>(1 474 606)</u>
FINANCING ACTIVITIES		
Short-term borrowings	11 363 973	7 896 285
Long-term borrowings	2 526 848	2 000 000
Repayment of advances from the Consolidated Revenue Fund	(7 315)	(746 769)
Repayment of long-term borrowings	(998 180)	
Repayment of short-term borrowings	<u>(11 751 373)</u>	<u>(7 677 185)</u>
Cash flows from financing activities	<u>1 133 953</u>	<u>1 472 331</u>
CHANGE IN CASH AND CASH EQUIVALENTS	47 860	(5 859)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>100</u>	<u>5 959</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 9)	<u><u>47 960</u></u>	<u><u>100</u></u>

The notes are an integral part of these financial statements.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

Financement-Québec (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 on borrowings contracted. It 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

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

Short-term investments

Short-term investments are posted at the lower of cost and market value.

Deferred expenses and revenue

Deferred expenses and revenue are amortized over the duration remaining for each instrument in accordance with the straight-line method.

Currency translation

Borrowings and advances from the Consolidated Revenue Fund in foreign currency and repayable in Canadian currency under swap agreements are determined at the exchange rate stipulated in these agreements.

Cash and cash equivalents

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

Derivative financial instruments

Financement-Québec uses derivative financial instruments to manage its exchange and interest-rate risks. It is the Corporation’s policy not to use derivative financial instruments for transaction or speculation purposes.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Derivative financial instruments (cont'd)**

The Corporation properly documents all relations between hedging instruments and the items covered by attaching all of the derivative financial instruments used in hedging operations for specific assets and liabilities shown in the balance sheet or statement of cash flows. The objective and risk-management strategy underlying the differently hedging operations are also documented. It also determines, methodically, both when implementing hedging and thereafter, whether the derivative instruments used in the hedging operations effectively offset variations in the fair values or cash flows of the items hedged.

When the derivative financial instrument is designated and proves effective for hedging the variations in fair values and cash flows, the gains and losses are posted to the appropriate items in the statement of operations at the same time as those attached to the assets or liabilities hedged.

If a derivative instrument no longer fulfils the hedging conditions, the gains and losses realized and not realized attached to derivative instruments that have ended or stopped being effective before maturity are deferred to the balance sheet items and reported in the results for the period in which the underlying hedged operation was posted. If a designated hedged item is sold, cancelled or matures before the related derivative itself matures, any gain or loss realized or not realized on this derivative instrument is disclosed in the statement of operations. Should the derivative financial instrument once again be eligible for hedged, any past fair value posted in the balance sheet will be amortized in the statement of operations over the remaining service life of the hedged item.

3. LOANS**Borrowers**

	March 31, 2007	March 31, 2006
School boards	4 585 250	4 055 874
Cegeps	1 485 858	1 397 474
Development establishments and agencies of the health and social services network	4 012 394	3 822 944
Universities and other	2 012 500	1 737 953
	<u>12 096 002</u>	<u>11 014 245</u>

Repayable in Canadian currency

Maturity date
Fiscal year

2007		807 972
2008	326 057	350 455
2009	1 564 302	1 689 158
2010	1 818 582	1 952 933
2011	424 766	453 848
2012 – 2033	7 962 295	5 759 879
	<u>12 096 002</u>	<u>11 014 245</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 \$1 234 949 at March 31, 2007.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

4. SHORT-TERM INVESTMENTS

Short-term investments, reported at cost, are composed of three discount notes with a fixed interest rate of 4.1781, 4.1970 and 4.2191% respectively. These investments mature in the coming fiscal year.

5. BORROWINGS

Maturity date Fiscal year	March 31, 2007		March 31, 2006
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2007			1 385 580
2008	500 000	3.74 to 4.107; variable ¹	500 000
2009	1 105 500	4.7814 to 5.9515; variable ¹	1 105 500
2010	1 500 000	3.849 to 4.8683; variable ¹	1 500 000
2011	400 000	3.779 to 4.2075	400 000
2012	1 900 000	4.16 to 5.2764; variable ¹	1 900 000
2013	1 020 000	4.134 to 5.0625	200 000
2014	1 781 000	4.108 to 4.843; variable ¹	500 000
2015	400 000	4.3172 to 4.7203	200 000
2016	509 400	4.2978 to 6.393	509 400
2035	225 900	5.25; variable ¹	
	9 341 800		8 200 480
Plus: Swap agreements in Canadian currency	1 714 200		1 714 200
Total in Canadian currency	11 056 000		9 914 680
Repayable in US currency			
2013	782 000	5.391 to 5.82	782 000
Less: Swap agreements in Canadian currency	782 000		782 000
Total in US currency			
Repayable in Euros			
2009	932 200	4.9005 to 5.861; variable ²	932 200
Less: Swap agreements in Canadian currency	932 200		932 200
Total in Euros			
Total borrowings	11 056 000		9 914 680

Note: None of these borrowings are repayable before maturity. All long-term borrowings are underwritten by Québec.

¹ Bank acceptance rates, three months plus a difference varying between -0.0175% and +0.268%.

² Bank acceptance rates, three months plus 0.387706% and 0.319%.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

6. ADVANCES FROM THE CONSOLIDATED REVENUE FUND

Maturity date Fiscal year	March 31, 2007		March 31, 2006
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2008	395 508	6.50	395 508
2009	5 000	6.98	5 000
2010	388 498	5.50 to 11.00	389 073
2012	64 428	9.5	65 962
2023	150 405	9.375	152 145
	<u>1 003 839</u>		<u>1 007 688</u>
Plus: Swap agreements in Canadian currency			<u>3 466</u>
Total in Canadian currency	<u>1 003 839</u>		<u>1 011 154</u>
Repayable in US currency			
2007			3 466
Less: Swap agreements in Canadian currency			<u>3 466</u>
Total in US currency			
Total advances from the Consolidated Revenue Fund	<u>1 003 839</u>		<u>1 011 154</u>

The amounts of capital payments to make on advances from the Consolidated Revenue Fund over the next five fiscal years break down as:

<u>Fiscal year</u>	<u>Amount</u>
2008	399 356
2009	8 848
2010	390 624
2011	3 274
2012	60 032

7. FINANCIAL INSTRUMENTS

Financement-Québec uses fixed-rate swap agreements to manage interest-rate risks related to its financial intermediation activities. Interest-rate swap agreements give rise to periodic exchange of interest payments without exchange at the nominal reference amount on which the payments are based and are recorded as adjustment in interest expenses on the borrowing instrument covered. The volume of interest-rate swap agreements in Canadian currency at March 31, 2007 was \$15 705 million (March 31, 2006: \$13 960 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.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

7. FINANCIAL INSTRUMENTS (cont'd)

The fair value of Financement-Québec assets and liabilities at March 31, 2007 was assessed by capitalizing cash flows at market rates for similar fixed-rate securities. Swap and interest-rate agreements are used only for hedging purposes and are assessed the same way as assets and liabilities.

	March 31, 2007		March 31, 2006	
	Book value	Fair value	Book value	Fair value
Borrowings and advances				
Borrowings	11 056	11 104	9 915	9 856
Consolidated Revenue Fund advances	1 004	1 113	1 011	1 139
Swap agreements		154		249
Interest-rate swap agreements		(20)		(20)
Total borrowings and advances	<u>12 060</u>	<u>12 351</u>	<u>10 926</u>	<u>11 224</u>
Loans				
Total loans	<u>12 096</u>	<u>12 343</u>	<u>11 014</u>	<u>11 230</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.

8. CAPITAL STOCK**Description**

Authorized:

1 000 000 common shares with a
par value of \$100 each

Issued and fully paid:

1 000 common shares

\$100 000

The Corporation's shares are held by Québec's Minister of Finance.

9. CASH FLOWS

	2007	2006
Cash and cash equivalents		
Cash on hand	35	100
Short-term investments	<u>47 925</u>	
	<u>47 960</u>	<u>100</u>

The interest paid by the Corporation during the fiscal year totalled \$570 458 232 (2006: \$518 362 498).

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

10. 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 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.

MANAGEMENT'S REPORT

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

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

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

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

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Nathalie Parenteau
Executive Vice-President

Bernard Turgeon
President and CEO

Québec, June 8, 2007

FINANCEMENT-QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Financement-Québec as at March 31, 2007 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 8, 2007

FONDATION DE LA FAUNE DU QUÉBEC
(R.S.Q., c. C-61.1)

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
for the year ended March 31, 2007

	General Fund		Capital Assets Fund		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Contributions from fishermen, hunters and trappers	\$3 101 258	\$3 033 043			\$3 101 258	\$3 033 043
Fundraising (Note 3)	933 932	769 712			933 932	769 712
Other contributions (Note 3)	320 606	573 356	\$19 687	\$69 162	340 293	642 518
Interest	63 312	67 604	10 042	5 330	73 354	72 934
	<u>4 419 108</u>	<u>4 443 715</u>	<u>29 729</u>	<u>74 492</u>	<u>4 448 837</u>	<u>4 518 207</u>
EXPENSES (Note 4)						
Cost of wildlife projects	3 355 035	3 332 860	767 543	714 539	4 122 578	4 047 399
Fundraising expenses	528 441	428 546			528 441	428 546
Administrative expenses	501 041	543 807			501 041	543 807
	<u>4 384 517</u>	<u>4 305 213</u>	<u>767 543</u>	<u>714 539</u>	<u>5 152 060</u>	<u>5 019 752</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	34 591	138 502	(737 814)	(640 047)	(703 223)	(501 545)
FUND BALANCES, BEGINNING OF YEAR	1 620 198	1 506 696	2 059 650	2 674 697	3 679 848	4 181 393
Inter-fund transfers (Note 5)		(25 000)		25 000		
FUND BALANCES, END OF YEAR	<u>\$1 654 789</u>	<u>\$1 620 198</u>	<u>\$1 321 836</u>	<u>\$2 059 650</u>	<u>\$2 976 625</u>	<u>\$3 679 848</u>

The notes are an integral part of these financial statements.

FONDATION DE LA FAUNE DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007			2006
	General Fund	Capital Assets Fund	Total	Total
ASSETS				
Current assets				
Cash on hand	\$44 729	\$3 395	\$48 124	\$21 674
Term deposits (average rate of 3.85%)	1 030 000	580 000	1 610 000	1 252 065
Accounts receivable (Note 6)	236 877	4 754	241 631	196 051
Accrued interest	37 147	5 668	42 815	37 017
Inventory	28 574		28 574	19 432
Prepaid expenses	10 384	4 335	14 719	28 007
	<u>1 387 711</u>	<u>598 152</u>	<u>1 985 863</u>	<u>1 554 246</u>
Contributions receivable (Note 7)		311 270	311 270	455 626
Investments (Note 8)	400 000		400 000	400 000
Capital assets (Note 9)	<u>199 502</u>	<u>1 223 784</u>	<u>1 423 286</u>	<u>2 100 183</u>
	<u>\$1 987 213</u>	<u>\$2 133 206</u>	<u>\$4 120 419</u>	<u>\$4 510 055</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$325 424	\$100	\$325 524	\$350 264
Deferred contributions (Note 11)	7 000	500 000	507 000	24 317
	<u>332 424</u>	<u>500 100</u>	<u>832 524</u>	<u>374 581</u>
Bank borrowings (Note 12)		311 270 \$	311 270	455 626
	<u>332 424</u>	<u>811 370</u>	<u>1 143 794</u>	<u>830 207</u>
FUND BALANCES				
Invested in capital assets	199 502	1 223 784	1 423 286	2 100 183
Reserved for partners (Note 13)	535 823		535 823	491 402
Allocations for wildlife projects:				
Balance committed (Note 14)	919 464		919 464	955 196
Free balance		98 052	98 052	133 067
	<u>1 654 789</u>	<u>1 321 836</u>	<u>2 976 625</u>	<u>3 679 848</u>
	<u>\$1 987 213</u>	<u>\$2 133 206</u>	<u>\$4 120 419</u>	<u>\$4 510 055</u>

DEPOSITS – WILDLIFE PROJECTS (Note 10)**COMMITMENTS** (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Gauthier, President
Marie Lamontagne, Treasurer

FONDATION DE LA FAUNE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007			2006
	General Fund	Capital Assets Fund	Total	Total
OPERATING ACTIVITIES				
Receipts				
Contributions - users, partners, clients and members	\$3 971 766	\$3 154	\$3 974 920	\$4 241 061
Government and municipalities contributions	318 448	663 574	982 022	468 366
Interest earned	62 901	4 655	67 556	96 822
Disbursements				
Contributions to projects	(2 745 729)	(4 900)	(2 750 629)	(2 978 834)
Suppliers and staff members	(1 636 337)	(61 594)	(1 697 931)	(1 744 200)
Repayment of contribution overpayments				(221 317)
Interest paid	(2 202)		(2 202)	(15 831)
Net fund (outflows) inflows	(31 153)	604 889	573 736	(153 933)
INVESTMENT ACTIVITIES				
Net fund outflows				
Acquisition of capital assets	(44 995)		(44 995)	(68 024)
FINANCING ACTIVITIES				
New borrowings				71 707
Repayment of borrowings		(144 356)	(144 356)	(117 970)
Net fund outflows		(144 356)	(144 356)	(46 263)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(76 148)	460 533	384 385	(268 220)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1 150 877	122 862	1 273 739	1 541 959
CASH AND CASH EQUIVALENTS, END OF YEAR *	\$1 074 729	\$583 395	\$1 658 124	\$1 273 739

* Cash and cash equivalents include cash and term deposits.

The notes are an integral part of these financial statements.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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., c. 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

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

The Fondation uses the fund accounting method to record contributions.

The Fondation's current operations are included in the General Fund.

The Capital 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 capital assets for the Fondation or third parties and for payment of related expenses. These capital assets may not be disposed of, in whole or in part, without the consent of the partners who contributed to their purchase. This fund is therefore a designated fund.

Contribution recording

Contributions allocated to operations are posted to revenue in the General Fund in the year during which the related expenditures are incurred. Contributions and interest allocated to capital assets are posted to revenue in the Capital Assets Fund.

Non-designated contributions are posted to revenue in the year during which they are made.

The Fondation receives various goods free of charge. These contributions are reported in the financial statements at the fair value of the goods received.

Gain recording

Contributions collected on fishing, hunting and trapping licences are recorded when they are acquired by the Fondation.

Interest income is reported based on the number of days the investment is held during the fiscal year.

Inventories

Inventories are assessed at the lower of cost or net realization value. Cost is calculated in accordance with the first in, first out (FIFO) method.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Capital assets***Equipment*

Equipment is posted at cost and amortized over its estimated service life in accordance with the straight-line method at rates of 20 and 33 1/3%.

Works of art

Works of art—primarily wildlife paintings—are posted at cost, except for those which are donated or received in exchange for services rendered, which are posted, on the acquisition date, at their market value. They are not amortized.

Land

Land is posted at cost, except donated land, which is posted, on the date of acquisition, at its market or a municipal assessment value.

Development rights

Development rights held under acts of servitude for wildlife are posted at cost. They are not amortized.

Cash and cash equivalents

It is the Fondation's policy to present cash on hand, bank overdraft and term deposits that are easily convertible in the short term into a known amount of cash whose value should not change significantly under cash and cash equivalents.

Pension plans

The Fondation participates in inter-enterprise 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. FUNDRAISING AND OTHER CONTRIBUTIONS

	2007			2006
	<u>Fundraising</u>	<u>Other contributions</u>		<u>Total</u>
		<u>Operations</u>	<u>Capital assets</u>	<u>Total</u>
Governments and municipalities	\$152 372	\$163 186	\$19 218	\$302 146
Enterprises	492 746	35 849		766 844
Individuals	193 517	5 245		154 786
Foundations and NPOs	95 297	116 326	469	188 454
	<u>\$933 932</u>	<u>\$320 606</u>	<u>\$19 687</u>	<u>\$1 412 230</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. EXPENSES****GENERAL FUND**

	2007	2006
Wildlife project costs		
Contributions:		
Habitat-related projects	\$1 813 731	\$1 719 902
Fishing-related projects and projects related to the next generation *	477 813	558 846
Projects related to wildlife partners	343 434	323 083
Fondation projects **	87 275	101 287
Salaries and fringe benefits	523 599	502 051
Professional fees	2 350	19 842
Travelling expenses	15 092	13 990
Meetings, conferences and professional development	3 509	4 741
Advertising and promotional expenses	72 551	71 626
Printing and office expenses	9 509	12 287
Furniture and equipment	824	1 281
Amortization of capital assets	4 198	3 924
Other	1 150	
	<u>\$3 355 035</u>	<u>\$3 332 860</u>

* An amount of \$11 313 for the purchase of fishing rods and the corresponding revenue was not presented in 2007 (2006: \$36 602), given that these purchases were made for other organizations.

** Includes \$17 181 (2006: \$64 211) for professional fees, employee wages and fringe benefits of \$22 980 (2006: \$5 532).

	2007	2006
Fundraising expenses		
Salaries and fringe benefits	\$267 364	\$228 071
Professional fees	37 430	25 375
Commissions and royalties	9 188	3 338
Purchase of goods	29 514	12 128
Travelling expenses	10 530	16 200
Meetings, conference and professional development	2 954	3 891
Meals / benefits (events)	47 030	33 592
Advertising and promotional expenses	88 835	70 771
Printing and office expenses	19 845	20 817
Furniture and equipment	581	1 339
Amortization of capital assets	4 592	4 241
Other	10 578	8 783
	<u>\$528 441</u>	<u>\$428 546</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. EXPENSES (cont'd)****GENERAL FUND (cont'd)**

	2007	2006
Administrative expenses		
Salaries and fringe benefits	\$315 520	\$346 380
Professional fees	10 030	18 924
Travelling expenses	22 584	11 205
Meetings, conference and professional development	4 589	3 174
Advertising and promotional expenses	8 300	11 507
Rent	100 448	91 861
Printing and office expenses	24 700	29 242
Furniture and equipment	1 811	3 360
Amortization of capital assets	4 799	4 494
Other	8 260	23 660
	<u>\$501 041</u>	<u>\$543 807</u>

CAPITAL ASSETS FUND

	2007	2006
Wildlife project costs		
Contributions:		
Land acquisition and protection projects	\$701 661	\$638 396
Indirect costs:		
Salaries and fringe benefits	25 931	25 107
Professional fees	1 601	1 889
Advertising and promotional expenses	938	5 139
Land management	17 440	19 521
Interests on long-term debt	19 218	22 246
Travelling expenses and other	754	2 241
	<u>\$767 543</u>	<u>\$714 539</u>

5. INTERFUND TRANSFERS

In 2007, there were no transfers from the General Fund to the Capital Assets Fund (2006: \$25 000).

6. ACCOUNTS RECEIVABLE

Accounts receivable include \$9 717 (2006: \$31 823) owed by Gouvernement du Québec departments and agencies.

7. CONTRIBUTIONS RECEIVABLE

	2007	2006
Ministère du Développement durable, de l'Environnement et des Parcs:		
– For the repayment of bank borrowings (Note 12)	<u>\$311 270</u>	<u>\$455 626</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**8. INVESTMENTS**

Investments are posted at cost. Term deposits mature between June 12, 2007 and June 12, 2010 and bear interest at rates varying from 3.16% to 4.59% (average rate of 3.87%). Since the investments guarantee the bank credit line, they are renewed at maturity.

9. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
General Fund			
Equipment	\$136 440	\$71 943	\$64 497
Works of art	135 005		135 005
	<u>271 445</u>	<u>71 943</u>	<u>199 502</u>
Capital Assets Fund			
Land	1 172 144		1 172 144
Management right	51 640		51 640
	<u>1 223 784</u>		<u>1 223 784</u>
	<u>\$1 495 229</u>	<u>\$71 943</u>	<u>\$1 423 286</u>

Depreciation for the year totals \$24 531 (2006: \$20 302).

In keeping with its wildlife habitat protection property policy, the Fondation intends to transfer, free of charge, the property titles it holds in order to protect wildlife habitats there. These lands will be transferred relatively soon to local organizations, which will be responsible for their ongoing protection.

10. DEPOSITS – WILDLIFE PROJECTS

The Fondation holds funds on behalf of certain agencies for special projects in which it is not involved. The balance of these funds comprising cash, term deposits, accounts receivable, accrued interest and related operations is not included in the Fondation's financial statements.

	2007	2006
Fund balance, beginning of year	\$1 005 706	\$834 529
Deposits and interest earned	714 425	1 560 760
Disbursements and administrative costs	(1 256 195)	(1 391 771)
Increase (decrease) in accrued interest	<u>(1 637)</u>	<u>2 188</u>
Fund balance, end of year	<u>\$462 299</u>	<u>\$1 005 706</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. DEFERRED CONTRIBUTIONS****Capital Assets Fund**

To foster the conservation of protected areas, in 2007, the Fondation de la faune made commitments of \$680 000 for acquiring land of interest for wildlife, which will later be transferred to the Ville de Québec in an agreement for the acquisition of natural environments. This commitment is subject to a Ministère du Développement durable, de l'Environnement et des Parcs contribution. Deferred contributions represent the amounts received from the Ville de Québec as at March 31, 2007 for the acquisition of this land. These amounts will have to be repaid to the Ville de Québec if they have not been used by the end of the agreement in March 2008.

12. BANK BORROWINGS

	2007	2006
Borrowing, bearing interest at a fixed rate of 4.96%, repayable in monthly instalments of \$6 856, maturing in March 2009	\$156 503	\$229 047
Borrowing, bearing interest at a fixed rate of 4.91%, repayable in monthly instalments of \$1 594, maturing in March 2009	36 368	53 259
Borrowing, bearing interest at a fixed rate of 4.82%, repayable in monthly instalments of \$1 340, maturing in March 2009	30 594	44 823
Borrowing, bearing interest at a fixed rate of 4.71%, repayable in monthly instalments of \$2 248, maturing in March 2009	51 460	75 391
Borrowing, bearing interest at a fixed rate of 5.175%, repayable in monthly instalments of \$1 593, maturing in March 2009	36 345	53 106
	<u>\$311 270</u>	<u>\$455 626</u>

Capital payments on borrowings until maturity break down as:

2008	\$151 650
2009	159 620

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. These repayments are posted as contributions receivable (Note 7).

13. 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.

	2007	2006
Balance, beginning of year	\$491 402	\$145 305
Deposits and interest received	171 086	385 897
Amounts allocated during the year	(126 665)	(39 800)
Balance, end of year	<u>\$535 823</u>	<u>\$491 402</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

14. ALLOCATIONS FOR WILDLIFE PROJECTS

General Fund

The Fondation has committed to paying \$2 243 257 as financial assistance for various wildlife projects, with payments breaking down as:

2008	\$1 930 605
2009	262 652
2010	<u>50 000</u>
	<u>\$2 243 257</u>

At March 31, 2007, the financial assistance contracts signed represented \$1 560 207 of the total amount committed.

The Fondation allocated \$919 464 to meet its commitments.

15. 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:

2008	\$97 564
2009	99 691
2010	101 045
2011	103 752
2012	104 429
2013 and thereafter	<u>393 969</u>
	<u>\$900 450</u>

16. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial 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 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. FUTURE FRINGE BENEFITS

Pension plan

Fondation staff participates in the Government and Public Employees Retirement Plan (RREGOP). This is an inter-enterprise defined-benefit plan and includes guaranteed payments upon retirement and death.

The Fondation's contributions charged to the year-end statement total \$51 529 (2006: \$51 038). The Fondation's liability towards this Government plan is restricted to its employer contributions.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

18. FINANCIAL INSTRUMENTS**Bank credit line**

At March 31, 2007, the Fondation had an annually-renewable \$500 000 bank credit line guaranteed by investments. The amounts used bear interest at the prime rate minus 1%, i.e. 6% at the date of the balance sheet (2006: 5%). At March 31, 2006 and 2007, the balance was zero.

Fair value

The investments' fair value is estimated by actualizing future cash flows at current market interest rates for similar investment agreements.

The market value of investments was \$407 471 at March 31, 2007 (2006: \$404 851).

The other financial instruments' fair value equals their book value, given that they mature in the short term.

Credit risk

In the normal course of its operations, the Fondation, monitors its accounts receivable. Cash and term deposits are invested with top-notch financial institutions. Fondation management does not believe that it is exposed to a higher-than-normal risk level for these monetary assets.

Interest rate risk

Bank borrowings bear interest at fixed rates. Given that the Fondation foresees repaying these borrowings in full at term, the risk to which it is exposed are minimal.

FONDATION DE LA FAUNE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Fondation de la Faune du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

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

The Fondation 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 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

André Martin
President and Chief Executive Officer

Québec, May 3, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fondation de la faune du Québec as at March 31, 2007 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Fondation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of the Fondation as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Auditor General of Québec
Diane Bergeron, CA
Senior Director

Québec, May 3, 2007

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE
(R.S.Q., c. S-4.01)

STATEMENT OF OPERATIONS
for the year ended December 31, 2006

	2006 Total	2005 Total
REVENUES		
Contributions from funds established in detention centres	\$52 319	\$27 933
Interest on loans	6 845	11 799
Interest on bank deposits	3 637	1 506
Interest on investments	20 812	30 523
Dividends on mutual fund units (Note 6)	20 510	9 706
	<u>104 123</u>	<u>81 467</u>
EXPENSES		
Professional fees	51 513	78 948
Travel	8 386	21 006
Office expenses	6 583	8 901
Amortization of capital assets	368	1 304
Gift to funds established in detention centres	65 513	70 772
	<u>132 363</u>	<u>180 931</u>
SURPLUS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$(28 240)</u></u>	<u><u>\$(99 464)</u></u>

The notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN FUND BALANCE
for the year ended December 31, 2006

	2006 Total	2005 Total
FUND BALANCE, BEGINNING OF YEAR	\$1 772 425	\$1 871 889
Surplus (deficiency) of revenues over charges	<u>(28 240)</u>	<u>(99 464)</u>
FUND BALANCE, END OF YEAR	<u><u>\$1 744 185</u></u>	<u><u>\$1 772 425</u></u>

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

BALANCE SHEET
as at December 31, 2006

	2006 Total	2005 Total
ASSETS		
Current assets		
Cash on hand	\$110 624	\$44 975
Accounts receivable (Note 3)	72 311	33 601
Prepaid expenses	19 712	27 877
Loans – short-term portion (Note 4)	38 519	30 934
	<u>241 166</u>	<u>137 387</u>
INVESTMENTS AND LOANS		
Loans (Note 4)	352 946	291 212
Investments (Note 5)	1 152 715	1 343 458
Capital assets		<u>368</u>
	<u>1 505 661</u>	<u>1 635 038</u>
	<u>\$1 746 827</u>	<u>\$1 772 425</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$2 642	
SURPLUS	<u>1 744 185</u>	<u>\$1 772 425</u>
	<u>\$1 746 827</u>	<u>\$1 772 425</u>

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006

	2006 Total	2005 Total
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$(28 240)	\$(99 464)
Adjustments for:		
Interest on bonds	21 415	(9 272)
Amortization of capital assets	368	1 304
Dividends on mutual fund units	(20 510)	(9 706)
	(26 967)	(117 138)
Variation in non-cash items related to operations		
Loan encashment	155 967	78 146
New loans	(225 286)	(82 000)
Accounts receivable	(38 699)	23 440
Prepaid expenses	8 164	(7 638)
Accounts payable and accrued liabilities	2 642	(5 221)
	(97 212)	6 727
Cash flows for operating activities	(124 179)	(110 411)
INVESTMENT ACTIVITIES		
Acquisition of short-term investments		100 000
Acquisition of investments		(254 303)
Revenue from sale of investments	189 828	243 240
Cash flows from investment activities	189 828	88 937
INCREASE (DECREASE) IN CASH POSITION	65 649	(21 474)
CASH POSITION, BEGINNING OF YEAR	44 975	66 449
CASH POSITION, END OF YEAR	\$110 624	\$44 975

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

1. CONSTITUTION, PURPOSE AND FINANCING

The Fonds central de soutien à la réinsertion sociale ("central fund") was established under the Act respecting the Québec correctional system (R.S.Q., c. S-4.01), formerly the Act respecting correctional services. It is a social trust patrimony, provides gifts or loans, with or without interest, to support funds established in correctional facilities in financial difficulty. The central fund is made up of the contributions paid pursuant to section 94 by the funds established in correctional facilities; other sums of money from sources that may be determined by regulation; the interest earned on the sums of money making up the fund. The contribution collected for the central fund by each detention centre's social reintegration support fund is determined by the Minister within the limits set by Government regulation, and may differ for each fund.

Under the applicable income tax legislation, the Fonds central de soutien à la réinsertion sociale is not subject to income tax.

2. ACCOUNTING POLICIES

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

Short-term investments

Short-term investments are posted at cost or net realization value, whichever is less.

Investments

Investments are posted 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.

Capital assets

Capital assets are posted at cost and amortized in keeping with their service life in accordance with the straight-line method.

	<u>Service life</u>
Computer equipment	3 years
Office equipment	5 years

3. ACCOUNTS RECEIVABLE

	<u>2006</u>	<u>2005</u>
Contributions receivable	\$55 000	\$30 000
Advances to funds established in detention centres	13 699	
Accrued interest	<u>3 611</u>	<u>3 601</u>
	<u>\$72 310</u>	<u>\$33 601</u>

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**4. LOANS**

	<u>2006</u>	<u>2005</u>
Loans to funds established in detention centres		
Sherbrooke – interest-free, cashable in monthly instalments of \$1 309.80, maturing in 2021 *	\$225 286	\$138 670
On April 1, 2006, Sherbrooke's two loans totalling \$135 765 were consolidated into a single loan with a \$100 000 increase, bringing the new loan to \$235 765, interest-free		
Trois-Rivières – bearing interest at 5.5%, cashable in monthly instalments of \$1 217 (principal and interest), maturing in 2015 *	95 112	104 209
New-Carlisle – interest-free, cashable in monthly instalments of \$683, maturing in 2015 *	<u>71 067</u>	<u>79 267</u>
	391 465	322 146
Payments receivable in the coming fiscal year	<u>(38 519)</u>	<u>(30 934)</u>
	<u>\$352 946</u>	<u>\$291 212</u>

* The interest rate, terms and conditions of repayment will be re-evaluated annually on the loan's anniversary date.

5. INVESTMENTS

	<u>2006</u>	<u>2005</u>
Term deposits		
Term deposit, bearing interest at 3.75%, maturing in September 2007	\$125 000	
Term deposit, bearing interest at 3.1%, maturing in September 2007	<u>200 000</u>	<u>\$200 000</u>
	<u>325 000</u>	<u>200 000</u>
Bonds		
Gouvernement du Québec, at rates varying from 2.9% to 4.16%, maturing up to August 2007	300 917	490 745
Government of Ontario, at a rate of 3.21%, maturing in June 2007	149 055	149 055
Accrued interest	<u>23 994</u>	<u>45 419</u>
	<u>473 966</u>	<u>685 219</u>
Mutual fund units	<u>353 749</u>	<u>333 239</u>
	<u>\$1 152 715</u>	<u>\$1 218 458</u>

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

6. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Office equipment	\$3 300	\$3 300	
Computer equipment	7 284	7 284	\$368
	<u>\$10 584</u>	<u>\$10 584</u>	<u>\$368</u>

7. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the short term. The following table indicates the book value and the fair value of the Fonds' long-term financial instruments.

	2006		2005	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments	\$1 128 722	\$1 152 715	\$1 218 458	\$1 264 564
Loans ¹	\$391 465		\$322 146	

1 The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of loan.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE**MANAGEMENT'S REPORT**

The financial statements of the Fonds central de soutien à la réinsertion sociale were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

The Fonds central de soutien à la réinsertion sociale recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The trustee or trustee's representative oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

The fiscal year ended December 31, 2006 was not audited. The incorporating legislation does not stipulate any obligation to this effect and the trust is not governed by the Auditor General Act. A future regulation governing the application of sections 102 to 108 of the Act respecting the Québec correctional system will have to include measures regarding auditing the Fonds central de soutien à la réinsertion sociale's books and accounts.

Gaston Gamache
Coordinator

Québec, April 3, 2007

FONDS D'AIDE AUX RECOURS COLLECTIFS
(R.S.Q., c. R-2.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Gouvernement du Québec subsidy	\$694 500	\$713 600
Subrogations	219 040	231 227
Balances on class actions and settled claims	1 940 282	1 016 777
Interest	126 441	98 934
	<u>2 980 263</u>	<u>2 060 538</u>
EXPENSES		
Assistance to recipients (Note 3)	1 908 670	1 718 313
Board of Directors' expenses:		
Fees and fringe benefits	50 554	40 700
Communications and travelling expenses	5 316	4 959
	55 870	45 659
Administrative expenses:		
Salaries and fringe benefits	193 970	226 449
Rent	30 141	30 861
Professional and administrative services	25 813	38 500
Transportation and communications	8 933	8 767
Materials and supplies	1 510	3 432
Maintenance and repairs	381	676
Amortization of capital assets		5 326
Other expenses	5 623	16 527
	266 371	330 538
	<u>2 230 911</u>	<u>2 094 510</u>
SURPLUS (DEFICIT) FOR THE FISCAL YEAR	749 352	(33 972)
CUMULATED SURPLUS, BEGINNING OF YEAR	2 942 182	2 976 154
CUMULATED SURPLUS, END OF YEAR	<u>\$3 691 534</u>	<u>\$2 942 182</u>

SEGMENTAL REPORTING (Note 4)

The notes are an integral part of these financial statements.

FONDS D'AIDE AUX RECOURS COLLECTIFSBALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$89 643	\$82 097
Short-term investments - at cost	1 064 372	1 600 000
Accrued interest	62 380	69 854
Prepaid expenses	<u>881</u>	<u>2 795</u>
	1 217 276	1 754 746
Investments - at cost (Note 5)	<u>2 592 440</u>	<u>1 288 000</u>
	<u>\$3 809 716</u>	<u>\$3 042 746</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$76 888	\$58 817
Provision for vacation time	<u>22 071</u>	<u>18 175</u>
	98 959	76 992
Provision for sick leave (Note 8)	<u>19 223</u>	<u>23 572</u>
	<u>118 182</u>	<u>100 564</u>
CUMULATED SURPLUS (Note 6)		
Maintenance of liquid assets	300 000	300 000
Coverage of commitments	<u>3 391 534</u>	<u>2 642 182</u>
	<u>3 691 534</u>	<u>2 942 182</u>
	<u>\$3 809 716</u>	<u>\$3 042 746</u>
COMMITMENTS (Note 7)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
M^e Jean Bernier, Chairman
M^e Anne Turgeon, Director

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Proceeds reporting

Proceeds from subrogations, balances of claims and settled claims are reported when cashed.

Investment operations are reported on the date of the operation and the resulting interest income is reported on an accrual basis. Interest income is reported according to the number of days the investment was held during the fiscal year.

Assistance to recipients

Expenses for assistance to recipients is reported in the year the assistance is payable and recipients met the eligibility criteria, where applicable.

Investments

Short-term investments are reported at the lower of cost and net realization value.

The other long-term investments are reported at acquisition value.

Any lasting loss in value is diminished by the investments' book value and the loss is posted to the fiscal year's results.

Pension plan

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

3. FINANCIAL ASSISTANCE TO RECIPIENTS

Financial assistance to recipients for group claims in 2007 was \$390 948 (2006: \$608 069) for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. SEGMENTAL REPORTING

Activity sectors	2007			2006		
	Operations	Assistance to recipients	Total	Operations	Assistance to recipients	Total
Revenue						
Gouvernement du Québec subsidy	\$396 300	\$298 200	\$694 500	\$415 400	\$298 200	\$713 600
Subrogations		219 040	219 040		231 227	231 227
Balances on class actions and settled claims ¹		1 940 282	1 940 282		1 016 777	1 016 777
Interest		126 441	126 441		98 934	98 934
	<u>396 300</u>	<u>2 583 963</u>	<u>2 980 263</u>	<u>415 400</u>	<u>1 645 138</u>	<u>2 060 538</u>
Expenditure						
Assistance to recipients	-----	1 908 670	1 908 670	-----	1 718 313	1 718 313
Board of Directors' expenses:						
Fees and fringe benefits	50 554		50 554	40 700		40 700
Communications and travelling expenses	<u>5 316</u>		<u>5 316</u>	<u>4 959</u>		<u>4 959</u>
	-----	-----	-----	-----	-----	-----
	55 870		55 870	45 659		45 659
Administrative expenses:						
Salaries and fringe benefits	193 970		193 970	226 449		226 449
Rents	30 141		30 141	30 861		30 861
Professional and administrative expenses	25 813		25 813	38 500		38 500
Transportation and communications	8 933		8 933	8 767		8 767
Materials and supplies	1 510		1 510	3 432		3 432
Maintenance and repairs	381		381	676		676
Depreciation of capital assets				5 326		5 326
Other expenses	<u>5 623</u>		<u>5 623</u>	<u>16 527</u>		<u>16 527</u>
	-----	-----	-----	-----	-----	-----
	266 371		266 371	330 538		330 538
	<u>322 241</u>	<u>1 908 670</u>	<u>2 230 911</u>	<u>376 197</u>	<u>1 718 313</u>	<u>2 094 510</u>
(Deficit) surplus in the fiscal year	<u>\$74 059</u>	<u>\$675 293</u>	<u>\$749 352</u>	<u>\$39 203</u>	<u>\$(73 175)</u>	<u>\$(33 972)</u>

- 1 In accordance with the Act respecting the class action, all revenue from balances on class actions and settled claims is allocated to assistance to recipients.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. INVESTMENTS**

	2007		2006	
	Cost	Fair value	Cost	Fair value
Québec tiered-rate bonds maturing September 26, 2012 at an interest rate of 6.0% until September 25, 2007 and 6.05% until September 25, 2008	\$873 000	\$899 836	\$873 000	\$894 692
Financement Québec guaranteed-rate bonds maturing June 1, 2006 at an interest rate of 3.19%			415 000	438 747
Bond with interest payable half-yearly at rate of 4.274% maturing in October 15, 2008	219 441	223 196		
Province of Québec guaranteed-rate coupon maturing September 21, 2008 at an interest rate of 4.12%	1 499 999	1 509 949		
	<u>\$2 592 440</u>	<u>\$2 632 981</u>	<u>\$1 288 000</u>	<u>\$1 333 439</u>

The investments' fair value is estimated by discounting future cash flows at the current market interest rate for similar investment agreements.

6. CUMULATED SURPLUS

The Fonds' Board of Directors deems it essential to maintain liquid assets of \$300 000 in its Working Capital Fund. Moreover, it passed a resolution to reserve the cumulated surplus for the Fonds' present and future commitments.

7. COMMITMENTS

At March 31, 2007, Fonds' commitments related to assistance to recipients amounted to \$2 725 552 (2006: \$2 431 269), including \$34 669 (2006: \$0) 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, 2007 was \$3 300 000 (2006: \$3 300 000), \$300 000 of which (2006: \$300 000) is reserved for two tobacco files (Létourneau et Conseil québécois sur le tabac et la santé).

8. FUTURE FRINGE BENEFITS**Pension plan**

Fonds staff participates in the Government and Public Employees Retirement Plan (RREGOP). This is an inter-enterprise defined-benefit plan that includes guaranteed payments upon retirement and death.

The Fonds' contributions charged to the year-end statement were \$7 544 (2006: \$11 936). The Fonds' liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$23 572	\$10 510
Annual year	7 340	22 254
Benefits paid during the year	(11 689)	(9 192)
Balance, end of year	<u>\$19 223</u>	<u>\$23 572</u>

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given their pending maturity date.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial 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 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.

MANAGEMENT'S REPORT

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Jean Bernier
President

Louise Ducharme
Legal Counsel and Secretary

Montréal, July 6, 2007

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, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 6, 2007

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC
(R.S.Q., c. M-35.1)**

**STATEMENT OF OPERATIONS AND FUND BALANCE
for the fiscal year ended March 31, 2007**

	<u>2007</u>	<u>2006</u>
REVENUES		
Premiums	\$94 796	\$94 444
Net investment income (Note 3)	<u>387 359</u>	<u>328 719</u>
	482 155	423 163
EXPENSES		
Auditing fees	12 670	
Guarantee claim recovery		<u>(2 106)</u>
	<u>12 670</u>	<u>(2 106)</u>
EXCESS REVENUES OVER EXPENSES	469 485	425 269
FUND BALANCE, BEGINNING OF YEAR	<u>4 806 088</u>	<u>4 380 819</u>
FUND BALANCE, END OF YEAR	<u><u>\$5 275 573</u></u>	<u><u>\$4 806 088</u></u>

The notes are an integral part of these financial statements.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

BALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash on hand	\$75 668	\$98 890
Accounts receivable	25	
Deposits with the Special Fund 329 of the Caisse de dépôt et placement du Québec:		
Demand deposits and accrued interest	50 819	49 004
Participation deposits (Note 4)	<u>5 235 443</u>	<u>4 749 919</u>
	<u>\$5 361 955</u>	<u>\$4 897 813</u>
LIABILITIES		
Accounts payable	\$17 622	\$6 554
Prepaid premiums	<u>68 760</u>	<u>85 171</u>
	86 382	91 725
FUND BALANCE	<u>5 275 573</u>	<u>4 806 088</u>
	<u>\$5 361 955</u>	<u>\$4 897 813</u>

GUARANTEE POLICIES (Note 6)

The notes are an integral part of these financial statements.

On behalf of the Régie,

Marc A. Gagnon
President

Yves Lapierre
Director, Analyses and Operations

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007

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) to foster the efficient and orderly marketing of agricultural and food products, development of harmonious relations between the various parties involved and settlement of disputes arising in connection with the production and marketing of such products, taking into account the interests of consumers and protection of the public interest. The Régie does the same for the marketing of fish products. It also manages the Fonds d'assurance-garantie ("Fund").

Fonds d'assurance-garantie

The Fonds d'assurance-garantie results from the Régie's application of payment guarantees for agricultural products stipulated in the Act respecting the marketing of agricultural, food and fish products (R.S.Q., c. M-35.1, Title III, Chapter XI).

The Régie issues bonds by insurance policies to milk merchants to cover the payment of the sums that a milk merchant owes or might owe his producers or to the organization in charge of applying a joint plan. The premiums collected and all other net revenues applicable to this Fund must be used exclusively to pay claims under policies issued by the Régie. No-one can be a milk merchant unless he holds a guarantee policy issued by the Régie. The Minister of Finance can, with the government's authorization, give the Régie an advance on the sums required to pay the latter's obligations under guarantee policies.

2. ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fund's cash flows during the year.

Claim reimbursement

Claims from producers or from the agency responsible for applying a joint plan are posted when known. The amount is adjusted as additional information become available. The amounts recovered are posted once they are known.

Deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec

Deposits are recorded at cost.

Revenue reporting

Premiums are posted to revenue for the fiscal year in which they are payable when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Administrative expenses

The Fund's administrative expenses are borne by the Consolidated Revenue Fund apart from auditing fees.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. NET INVESTMENT INCOME

	2007	2006
Fonds particulier 329 of the Caisse de dépôt et placement du Québec:		
Participation deposits	\$386 311	\$327 962
Demand deposits	1 048	757
	<u>\$387 359</u>	<u>\$328 719</u>

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.

	2007	2006
Number of units	5 819	5 334
Fair value per unit	\$1 013	\$994
Cost of units	\$5 235 443	\$4 749 919
Fair value of units	\$5 896 510	\$5 302 997

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash, accounts receivable, demand deposits and accounts payable equal their book value, given that they mature in the short term.

6. GUARANTEE POLICIES

Guarantees by insurance policy issued the by Régie ensure the value of the milk bought or received directly from producers over the sixty days immediately preceding the date the guarantee is cancelled or expires.

The value of guarantees in effect at March 31, 2007 is assessed at \$418 M (March 31, 2006: \$396 M) established based on the total of the two highest monthly milk and cream receipts for the preceding fiscal year for all merchants for whom the Régie issued a surety during the year.

Further, to guarantee a milk merchant's solvency, the Régie requires additional conditions before issuing a guarantee policy. For new milk merchants, those in financial difficulty or foreign companies, guarantee or surety letters from financial institutions, parent companies or subsidies are required. The value of these additional guarantees obtained at March 31, 2007 totalled \$0.4 M (March 31, 2006: \$0.4 M).

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec as at March 31, 2007 and the statement of operations and fund balance for the year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds d'assurance-garantie as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 11, 2007

FONDS D'ASSURANCE PARENTALE
(R.S.Q., c. A-29.011)

STATEMENT OF OPERATIONS AND NET ASSETS
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
QPIP contributions *	1 184 310	
Special Government of Canada contribution (Note 3)	200 000	
Net investment income (Note 4)	22 403	3 153
Interest and penalties on QPIP contributions	<u>918</u>	<u></u>
	<u>1 407 631</u>	<u>3 153</u>
EXPENSES		
QPIP benefits	828 973	
Bad debts	1 861	
Reimbursement of Government of Canada maternity, parental and adoption benefits (Note 5)	346 644	
Administrative expenses allocated by the Conseil de gestion de l'assurance parentale (Note 6)	<u>21 353</u>	<u>1 291</u>
	<u>1 198 831</u>	<u>1 291</u>
EXCESS OF REVENUES OVER EXPENSES	208 800	1 862
NET ASSETS, BEGINNING OF YEAR	<u>1 862</u>	<u></u>
NET ASSETS, END OF YEAR	<u><u>210 662</u></u>	<u><u>1 862</u></u>

The notes are an integral part of these financial statements.

* Québec Parental Insurance Plan (QPIP)

FONDS D'ASSURANCE PARENTALE

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	7 040	
Accounts receivable (Note 7)	143 000	1
Advance to the Ministère des Finances, prime rate minus 2.5 %, no encashment terms	31 288	
Advance to the Conseil de gestion de l'assurance parentale, interest-free, no encashment terms	10 100	3 708
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	<u>407 913</u>	<u>198 153</u>
	<u>599 341</u>	<u>201 862</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	42 035	
Deferred contributions (Note 3)		200 000
Government of Canada maternity, parental and adoption benefits payable (Note 5)	346 644	
NET ASSETS	<u>210 662</u>	<u>1 862</u>
	<u><u>599 341</u></u>	<u><u>201 862</u></u>

FUTURE QUÉBEC PARENTAL INSURANCE PLAN BENEFITS (Note 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Denis Latulippe
President-CEO

Marie-Josée Le Blanc
Chair, Planning and Auditing
Committee

FONDS D'ASSURANCE PARENTALE

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
QPIP contributions collected	1 043 637	
Special Government of Canada contribution collected		200 000
Net investment income collected	18 715	2 695
Interest and penalties on QPIP contributions collected	918	
QPIP benefits paid	(790 929)	
Administrative expenses paid to the Conseil	<u>(21 353)</u>	<u>(1 291)</u>
Cash flows from operating activities	<u>250 988</u>	<u>201 404</u>
INVESTMENT ACTIVITIES		
Net change in advances	(37 680)	(3 708)
Funds entrusted to the Caisse de dépôt et placement du Québec		
Acquisition of participation deposits	(341 328)	(202 039)
Revenue from sale of participation deposit units	<u>142 062</u>	<u>4 356</u>
Cash flows for investment activities	<u>(236 946)</u>	<u>(201 391)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14 042	13
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13</u>	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)	<u><u>14 055</u></u>	<u><u>13</u></u>

The notes are an integral part of these financial statements.

FONDS D'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FUNDING

Constitution and purpose

The Fonds d'assurance parentale (Fonds), a social trust under Québec's Civil Code, was created on June 17, 2005 by the Act respecting parental insurance (R.S.Q., A-29.011), assented to that same day. The Conseil de gestion de l'assurance parentale (Conseil) is its trustee.

The Fonds is mandated to pay benefits to those entitled to receive them under the Act respecting parental insurance and to pay for the Conseil's obligations in exercising its trustee duties.

Expenses related to Fonds administration and the Conseil's application of the Act respecting parental insurance, with the exception of those paid from the amounts the Conseil holds for purses other than trusteeship are paid by the Fonds.

Funding

The Fonds' main source of funding is the contributions Revenu Québec receives from salaried employees, their employers and self-employed workers working in Québec. As the body responsible for managing the Québec Parental Insurance Plan (QPIP), the Conseil determines the contribution applicable to these persons, subject to the Government's approval. The Plan has been in effect since January 1, 2006.

The Plan's purpose is to offer financial support to salaried and self-employed workers to enable them to recover physically from childbirth and to enable them to take care of their newborn or adopted child. Its goal is to grant maternity, paternity and parental benefits when a child is born and benefits when a child is adopted.

2. ACCOUNTING POLICIES

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

Plan contributions

Revenu Québec collects QPIP contributions for the Fonds and pays them to the Fonds on a regular basis. These amounts are provisional and can be audited and rectified. Best estimates of these contributions are reported at fiscal year-end. This estimate is used to report later contributions for the fiscal year based on the financial data known at the time. Where applicable, adjustments are reported in the fiscal year they become known.

Cash and cash equivalents

It is the Fonds' policy to present bank balances, minus outstanding cheques, where applicable, and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Financial instruments

Initial assessment

Financial instruments are reported at fair value the date of the transaction.

FONDS D'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)***Subsequent assessment*Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in a special fund at the Caisse are reported at the fair value established by the Caisse in accordance with assessment methods used in capital markets. These sums have been irrevocably slated for transaction purposes. Consequently, the gains and losses realized and changes in the fair value are posted to investment income for the fiscal year.

Advances

Advances have been classified as loans and accounts receivable. Their subsequent assessment is posted at cost, amortized in accordance with the effective interest method, where applicable.

3. SPECIAL GOVERNMENT OF CANADA CONTRIBUTION

In July 2005, the Fonds encaised a \$200 million contribution from the Government of Canada under the Canada-Québec Final Agreement on the Québec Parental Insurance Plan to support the Plan's implementation. It was reported as revenue in fiscal 2006—the fiscal year corresponding to the Plan's implementation period in keeping with this agreement.

4. NET INVESTMENT INCOME

	2006	2005
Participation deposits in a special fund at the Caisse de dépôt et placement du Québec		
Current revenue	17 261	3 238
(Losses) gains on investments	(26)	38
	17 235	3 276
Change in fair value	1 762	(487)
	18 997	2 789
Interest		
Demand deposits	2 864	363
Advances and bank balances	542	1
	22 403	3 153

5. REIMBURSEMENT OF GOVERNMENT OF CANADA MATERNITY, PARENTAL AND ADOPTION BENEFITS

In keeping with section 4.5 of the Canada-Québec Final Agreement on the Québec Parental Insurance Plan, the Gouvernement du Québec must, in 2007, reimburse the Government of Canada for the maternity, parental and adoption benefits paid by the latter in 2006 to Québec beneficiaries whose benefit period began prior to January 1, 2006. This amount is estimated at \$346.6 million, including the management costs related to these benefits. The final assessment of this amount is conditional on the ratification of an administrative agreement between the two parties to establish the amount and define the terms of the reimbursement to be made to the Government of Canada.

FONDS D'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2006

(in thousands of dollars)

6. ADMINISTRATIVE EXPENSES ALLOCATED BY THE CONSEIL

	2006	2005
Salaries and fringe benefits	951	754
Support and administrative services to the Ministère de l'Emploi et de la Solidarité sociale	378	142
Costs related to QPIP administration by the Ministère de l'Emploi et de la Solidarité sociale	10 532	
Costs related to computer support activities by the Ministère de l'Emploi et de la Solidarité sociale	3 021	
Costs related to Revenu Québec's contribution collection activities	2 243	215
Bank charges related to QPIP benefit payment by the Ministère des Finances	47	
Professional services	140	49
Other administrative expenses	117	124
Amortization		
Capital assets	31	7
Intangible assets	2 222	
Implementation costs	1 315	
Interest charges on long-term debt	356	
	<u>21 353</u>	<u>1 291</u>

The charges incurred by the Conseil to apply the Act respecting parental insurance are paid by the Fonds.

7. ACCOUNTS RECEIVABLE

	2006	2005
QPIP contributions receivable	139 170	
Collection of QPIP benefits receivable	3 623	
Interest receivable	197	1
Other	10	
	<u>143 000</u>	<u>1</u>

8. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2006	2005
Deposits in a special fund at the Caisse de dépôt et placement du Québec		
Demand deposits	7 015	13
Participation deposits	398 048	197 193
Investment income receivable	2 850	947
	<u>407 913</u>	<u>198 153</u>

Participation deposits in a special fund at the Caisse de dépôt et placement du Québec are expressed in units. These units are repayable with advance notice, in accordance with the Caisse's settlement means, at the market value of the special fund's net equity at the beginning of each month. At the end of each month, the Caisse assigns the special fund the net investment income.

FONDS D'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

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

	<u>2006</u>	<u>2005</u>
Demand deposits		
Number of units (in thousands)	397	198
Units' acquisition cost	396 773	197 680
Units' fair value	398 048	197 193

In 2006, the Fonds had 142 449 participation deposit units (2005: 4 359 units) worth \$142 061 589 (2005: \$4 356 205).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2006</u>	<u>2005</u>
QPIP benefits payable and accrued	41 636	
At-source deductions à payable – Gouvernement du Québec	219	
At-source deductions payable – Government of Canada	180	
	<u>42 035</u>	

10. CASH FLOW

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents		
Cash on hand	7 040	
Demand deposits (Note 8)	7 015	13
	<u>14 055</u>	<u>13</u>

11. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term assets and liabilities, other than the participation deposits in the item "Funds entrusted to the Caisse de dépôt et placement du Québec", represents a reasonable estimate of their fair value, given that they mature in the near future.

Participation deposits in a special fund entrusted to the Caisse de dépôt et placement du Québec are reported at the fair value established by the Caisse in accordance with assessment methods used on capital markets.

12. FUTURE QUÉBEC PARENTAL INSURANCE PLAN BENEFITS

The current estimated value of future payments as at December 31, 2006 of QPIP benefits after fiscal year-end, to be made to beneficiaries who filed an application for QPIP benefits at December 31, 2006, is estimated at \$494 million.

This value was established by the Conseil's actuaries using sufficient, reliable data. The actuarial methods and assumptions used were developed in a "best estimate" context, without an explicit margin of conservatism.

FONDS D'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2006

(in thousands of dollars)

13. RELATED PARTY TRANSACTIONS

The Fonds is a related party to its trustee, the Conseil de gestion de l'assurance parentale, and has concluded no transactions with this related party except in the normal course of business and under usual business conditions. These related party transactions, recorded at exchange value, are presented in the body of the financial statements.

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not 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

TRUSTEE'S REPORT

The financial statements of the Fonds d'assurance parentale were prepared by Conseil de gestion de l'assurance parentale management, as the Fonds' trustee, which is responsible for their preparation, presentation, including data integrity and reliability, and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

The Conseil recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. It must prepare an annual actuarial valuation of the application of the provisions of the Act respecting parental insurance and the statement of account for the Québec Parental Insurance Plan (QPIP).

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

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

For the Conseil de gestion de l'assurance parentale,
 Denis Latulippe
 President-CEO
 Fonds d'assurance parentale trustee

Étienne Sabourin, CA, MBA
 Financial management

Québec, June 8, 2007

FONDS D'ASSURANCE PARENTALE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance parentale as at March 31, 2006 and the statements of operations, net assets and cash flows for the year then ended. These financial statements are the responsibility of the Conseil de la gestion de l'assurance parentale management, as trustee. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 8, 2007

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS
(R.S.Q., c. A-29.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007
(in thousand of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Insurance charges (Note 3)	8 800	9 781
Investment income	12 206	10 170
Variation in the unrealized appreciation on investments	<u>6 377</u>	<u>8 816</u>
	27 383	28 767
EXPENSES		
Professional fees		1
Change in provision for loan guarantees (Note 5)	<u>12 503</u>	<u>3 083</u>
	12 503	3 084
EXCESS OF REVENUES OVER EXPENSES	14 880	25 683
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>77 931</u>	<u>52 248</u>
CUMULATED SURPLUS, END OF YEAR	<u>92 811</u>	<u>77 931</u>

The notes are an integral part of these financial statements.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

BALANCE SHEET
as at March 31, 2007
(in thousand of dollars)

	2007	2006
ASSETS		
Current assets		
Cash on hand	9	77
Short-term investments (Note 4)	11 678	6 184
Investment income receivable	975	845
	<u>12 662</u>	<u>7 106</u>
Investments (Note 6)	<u>154 681</u>	<u>139 233</u>
	<u>167 343</u>	<u>146 339</u>
 LIABILITIES		
Gouvernement du Québec advance – interest-free and without repayment terms	10 000	10 000
Provision for loan guarantees (Note 5)	<u>64 532</u>	<u>58 408</u>
	74 532	68 408
 CUMULATED SURPLUS	<u>92 811</u>	<u>77 931</u>
	<u>167 343</u>	<u>146 339</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

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousand of dollars)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	14 880	25 683
Elements not affecting cash flows:		
Change in allowance for loan guarantees	12 503	3 083
Change in unrealized appreciation of long-term investments	<u>(6 349)</u>	<u>(8 787)</u>
	----- 21 034	----- 19 979
Elements linked to operations:		
Change in investment income receivable	(130)	(73)
Repayment of loans to lenders	(7 014)	(6 275)
Recovery of losses	<u>635</u>	<u>344</u>
	----- (6 509)	----- (6 004)
Cash flows from operating activities	<u>14 525</u>	<u>13 975</u>
INVESTMENT ACTIVITIES		
Acquisitions of investments, cash flows for investment activities	<u>(9 099)</u>	<u>(9 201)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	5 426	4 774
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6 261</u>	<u>1 487</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>11 687</u></u>	<u><u>6 261</u></u>
Cash and cash equivalents at year-end include:		
Cash	9	77
Short-term investments	<u>11 678</u>	<u>6 184</u>
	<u><u>11 687</u></u>	<u><u>6 261</u></u>

The notes are an integral part of these financial statements.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

(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

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

Investments

Short-term investments are recorded at the fair value determined by the closing rate the date of the balance sheet. The funds entrusted to the Caisse de dépôt et placement du Québec are posted at the fair value established by the Caisse using capital market evaluation methods. They include participation deposits in a specific Caisse fund, which were tagged specifically for transactions and the related revenues receivable.

Provision 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 provision change, the real losses on guaranteed loans might differ from the estimates made.

The general provision is established using the method of discounting losses considering a failure rate per term and average losses using the maximum term for the type of loan guaranteed at fiscal year-end and an annual discount rate of 6%. This provision includes an implicit margin for unfavourable variance based on the recommendations of the Canadian Institute of Actuaries.

The specific provision is established using a case-by-case analysis of the loans insured as at March 31 for which the amount in arrears has been owing for more than 180 days or when circumstances make the possibility of one day collecting the principle and interest doubtful. The specific provision represents the balance of the loan guarantee adjusted by the guarantees' realizable value.

Cash and cash equivalents

It is the Fonds policy to present bank balances and short-term investments that are easily convertible into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. INSURANCE CHARGES

Insurance charges were paid in full by La Financière agricole du Québec, a related, jointly-controlled entity. They correspond to 1.43% of the authorized amount of loans for which the first instalment was paid to the lender in the previous fiscal year and 1.25% of the balance of credit adjudication granted by the lender as at March 31 of the previous year.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousand of dollars)

4. SHORT-TERM INVESTMENTS

	2007	2006
Bank acceptance		499
Commercial papers, 4.47% to 4.48%, maturing until June 21, 2007	9 650	5 384
Bond, 4.47% maturing April 18, 2008	2 000	
Caisse de dépôt et placement du Québec: Demand deposits, 4.25%	28	301
	<u>11 678</u>	<u>6 184</u>

5. PROVISION FOR LOAN GUARANTEES

	2007	2006
Balance, beginning of year	58 408	61 256
Reimbursement of losses to lenders	(7 014)	(6 275)
Recovery of losses	635	344
Change in allowance for loan guarantees	12 503	3 083
Balance, end of year	<u>64 532</u>	<u>58 408</u>
The closing balance breaks down as:		
Specific provision	16 536	11 510
General provision	47 996	46 898
	<u>64 532</u>	<u>58 408</u>

The provision for loan guarantees reflects the overall portfolio of loans insured as at March 31, 2007, totalling \$4 206.3 million (2006: \$4 171.7 million). As at March 31, 2007, insured loans covered by a specific provision total \$51 million (2006: \$30 million).

Insured loan guarantee

The guarantee's duration corresponds to the remaining duration of the loans insured, which breaks down as:

	2007	2006
Farm financing:		
less than 5 years	435 015	437 895
between 5 and 10 years	1 210 843	1 195 826
between 10 and 15 years	1 459 941	1 417 543
between 15 and 20 years	992 511	1 011 549
20 years and more	19 974	26 549
Amounts carried forward	<u>4 118 284</u>	<u>4 089 362</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousand of dollars)

5. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

Insured loan guarantee

	2007	2006
Amounts brought forward	4 118 284	4 089 362
Forestry financing:		
less than 5 years	9 419	10 957
between 5 and 10 years	16 349	17 120
between 10 and 15 years	23 561	22 478
between 15 and 20 years	38 171	31 202
20 years and more	545	571
	88 045	82 328
	4 206 329	4 171 690

The balances in principle and interest of insured loans, for which the Fonds reimburses losses and pays related fees, bear interest at the following rates:

	2007	2006
Farm financing:		
less than 4%	12 733	93 962
from 4% to 5.99%	2 204 874	2 887 250
6% and more	1 352 421	599 410
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	548 256	508 740
	4 118 284	4 089 362
Forestry financing:		
less than 5%	3 598	22 732
from 5% to 6.99%	75 575	49 910
7% and more	584	2 693
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	8 288	6 993
	88 045	82 328
	4 206 329	4 171 690

The Fonds has certain recourses allowing it to recover, from third parties, amounts paid to lenders once the guarantee is enforced.

The assets held as surety by the lenders are primarily farm or forestry harvesting units, dairy quotas and sureties. The Fonds covers the lender's residual loss.

The loan guarantee's fair value equals the overall provision, given that the latter is subject to four-year actuarial analysis and annual review.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousand of dollars)

6. INVESTMENTS

Participation deposits, held for transaction purposes, 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, shown separately from short-term assets, are also invested in a specific fund.

	<u>2007</u>	<u>2006</u>
Participation deposits at fair value	<u>154 681</u>	<u>139 233</u>

7. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

8. FINANCIAL INSTRUMENTS**Fair value**

The short-term financial instruments' fair value equals their book value, given that they mature in the near future. The provision for loan guarantee's fair value equals its book value, given that the provision is subject to four-year actuarial analysis and annual review. The Gouvernement du Québec advance's fair value cannot reasonably be estimated, given the lack of a market.

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:

	<u>2007</u>	<u>2006</u>
Dairy production	54%	54%
Hog production	11%	11%
Grain production	8%	8%
Horticultural production	7%	7%
Beef production	6%	6%
Maple product production	4%	4%
Other	10%	10%

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'assurance-prêts agricoles et forestiers were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the 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

Jean-Marc Lacasse
Vice-President, Corporate Affairs

Lévis, May 29, 2007

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-prêts agricoles et forestiers as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of the Fonds as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 29, 2007

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC
(R.S.Q., c. D-9.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Subsidies (Note 3)	\$84 312 971	\$84 298 180
Interest and other revenue (Note 4)	<u>1 671 839</u>	<u>1 417 449</u>
	85 984 810	85 715 629
EXPENSES		
Scholarships and grants awarded (Note 5)	82 317 401	79 840 030
Operating expenses (Note 6)	<u>5 040 796</u>	<u>5 212 231</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$(1 373 387)</u></u>	<u><u>\$663 368</u></u>

The notes are an integral part of these financial statements.

SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
SURPLUS, BEGINNING OF YEAR	\$2 525 224	\$1 861 856
Excess (deficiency) of revenues over expenses	<u>(1 373 387)</u>	<u>663 368</u>
SURPLUS, END OF YEAR	<u><u>\$1 151 837</u></u>	<u><u>\$2 525 224</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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand (Note 12)	\$3 035 392	\$1 990 542
Term deposits (2.75% to 3.9%) (Note 12)	10 949 489	12 315 133
Accrued interest	297 813	138 341
Accounts receivable (Note 8)	84 029	724 717
Prepaid expenses	29 786	57 664
	<u>14 396 509</u>	<u>15 226 397</u>
Capital assets (Note 9)	<u>453 713</u>	<u>643 958</u>
	<u><u>\$14 850 222</u></u>	<u><u>\$15 870 355</u></u>
LIABILITIES		
Current liabilities		
Scholarships and grants payable	\$5 855 214	\$5 642 722
Accounts payable and accrued liabilities (Note 10)	787 294	834 084
Deferred contributions (Note 11)	5 574 433	5 139 523
	<u>12 216 941</u>	<u>11 616 329</u>
Deferred contributions related to capital assets	115 351	382 706
Special Research Fund (Note 12)	1 366 093	1 346 096
APPROPRIATED SURPLUS (Note 7)	<u>1 151 837</u>	<u>2 525 224</u>
	<u><u>\$14 850 222</u></u>	<u><u>\$15 870 355</u></u>
COMMITMENTS (Note 14)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Alain Beaudet, M.D., Ph. D.
Jacques Hendlisz

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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

Use of estimates

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

Proceeds reporting

Unappropriated subsidies are reported as proceeds when they are received or receivable if the amount can be reasonably estimated and it is relatively certain that it will be received. Subsidies allocated by the government for scholarships and grants are deferred and posted to proceeds in the fiscal year in which the expenses for which they are allocated are incurred.

Scholarships and grants awarded

Scholarships and grants are posted when they have approved and recipients have met the eligibility criteria. Cancelled or recovered scholarships and grants are posted in the year in which they were cancelled or recovered.

Capital assets

Capital assets are recorded at acquisition cost and amortized in accordance with the straight-method line over their estimated service life, i.e. 5 years for furniture and equipment, 3 years for computer equipment and software, and the remainder of the lease for leasehold improvements.

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

Deferred contribution for capital assets

Gouvernement du Québec contributions for the acquisition of amortizable capital assets are deferred and posted in the statement of operations according to the same terms as the amortization of the related capital assets.

Pension plans

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

Statement of cash flows

The statement of cash flows is not shown as it would not provide any additional useful information on the Funds' cash flows during the year.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. SUBSIDIES - SCHOLARSHIPS AND GRANTS

	2007	2006
Government		
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$69 689 549	\$69 831 882
Régie de l'assurance maladie du Québec	8 400 000	8 400 000
Ministère de la Santé et des Services sociaux du Québec	3 896 002	3 601 002
Société de l'assurance automobile du Québec		50 000
Institut de recherche Robert-Sauvé en santé et en sécurité du travail	49 500	41 250
Fonds québécois de la recherche sur la nature et les technologies	16 500	13 750
Fonds québécois de la recherche sur la société et la culture	484 000	566 250
Université Laval	32 712	
Newton Foundation	250 000	250 000
Amortization of deferred contributions for capital assets	267 354	387 551
	<u>83 085 617</u>	<u>83 141 685</u>
Other	<u>1 227 354</u>	<u>1 156 495</u>
	<u><u>\$84 312 971</u></u>	<u><u>\$84 298 180</u></u>

4. INTEREST AND OTHER REVENUE

	2007	2006
Interest on bank and short-term deposits	\$1 079 245	\$784 642
Cancellations and recovery of scholarships and grants	159 608	165 461
Other	432 986	467 346
	<u><u>\$1 671 839</u></u>	<u><u>\$1 417 449</u></u>

5. SCHOLARSHIPS AND GRANTS AWARDED

	2007	2006
Training grants	\$11 863 638	\$11 433 442
Career scholarships	16 994 017	15 725 309
Research subsidies	10 459 861	10 218 577
International exchange programs	98 344	99 838
Subsidies for groups, centres, teams and research themes	42 901 541	42 362 864
	<u><u>\$82 317 401</u></u>	<u><u>\$79 840 030</u></u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**6. OPERATING EXPENSES**

	2007	2006
Salaries and fringe benefits	\$2 777 742	\$2 565 116
Professional fees	349 408	600 673
Travelling and accommodation expenses	254 021	203 435
Office space	678 599	657 415
Office expenses	267 112	352 229
Maintenance and repairs	321 525	366 945
Amortization of furniture and equipment	50 618	47 914
Amortization of leasehold improvements	24 153	23 937
Amortization of computer equipment and software	317 618	394 567
	<u>\$5 040 796</u>	<u>\$5 212 231</u>

7. APPROPRIATED SURPLUS

The Fonds, Board of Directors appropriated net assets of \$1 151 837 at March 31, 2007 (\$2 525 224 at March 31, 2006) for scholarships and grants to be awarded in the coming fiscal year and for operating costs. The Fonds cannot use these amounts tied to appropriations of outside origins for other purposes without the Board of Director's prior consent. These appropriations break down as:

	2007	2006
Training scholarships	\$552 812	\$136 822
Career scholarships	139 251	937 264
Grants	87 369	1 021 138
Operating costs	200 000	200 000
Start-up subsidies for young researchers	172 405	230 000
	<u>\$1 151 837</u>	<u>\$2 525 224</u>

8. ACCOUNTS RECEIVABLE

	2007	2006
Health Canada	\$20 000	\$100 000
Fonds québécois de la recherche sur la nature et les technologies		17 974
Fonds québécois de la recherche sur la société et la culture		100 099
Ministère de la Santé et des Services sociaux du Québec		344 628
Other	64 029	162 016
	<u>\$84 029</u>	<u>\$724 717</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. CAPITAL ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$262 086	\$192 486	\$69 600
Leasehold improvements	220 184	129 032	91 152
Computer equipment and software	1 114 507	821 546	292 961
	<u>\$1 596 777</u>	<u>\$1 143 064</u>	<u>\$453 713</u>
			<u>\$643 958</u>

Disbursements for the acquisition of capital assets totalled \$203 586 (2006: \$158 569). Proceeds from the sale of capital assets totalled \$1 200 (2006: \$1 500).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Suppliers and expenses payable	\$547 270	\$622 980
Salaries and fringe benefits payable	233 532	206 581
Fonds québécois de la recherche sur la société et la culture	1 776	72
Fonds québécois de la recherche sur la nature et les technologies	4 716	4 451
	<u>\$787 294</u>	<u>\$834 084</u>

11. DEFERRED CONTRIBUTIONS

	2007	2006
Protected programs	\$3 075 775	\$2 509 949
Support for health research in rural and semi-rural populations	180 000	270 000
National emergency program	709 288	834 784
Other	1 609 370	1 524 790
	<u>\$5 574 433</u>	<u>\$5 139 523</u>

The fiscal year's contributions total \$6 391 042 (2006: \$4 143 676). The amounts posted to proceeds total \$5 956 132 (2006: \$3 574 259).

The amount of deferred contributions cashed over the fiscal year totals \$6 765 128 (2006: \$4 009 091).

12. SPECIAL RESEARCH FUND

This item represents amounts received from private firms to create a special research fund. The Fonds de la recherche en santé du Québec acts as a trustee for the amounts deposited there.

Under agreements, 86% of the interest generated by 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 principle.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**12. SPECIAL RESEARCH FUND** (cont'd)

The amounts are distributed as follows:

	2007	2006
Pharmacology		
Principle	\$457 634	\$455 245
Accumulated interest	280 652	260 103
	738 286	715 348
Hypertension		
Principle	549 249	547 141
Accumulated interest	78 558	83 607
	627 807	630 748
	<u>\$1 366 093</u>	<u>\$1 346 096</u>

**Changes in Fund balance
for the year ended March 31, 2007**

	2007	2006
Balance, beginning of year	\$1 346 096	\$1 310 747
Increase		
Interest on term deposits	44 970	36 822
Decrease		
Grants awarded	(23 174)	
Administrative expenses – Fonds de la recherche en santé du Québec	(1 799)	(1 473)
Balance, end of year	<u>\$1 366 093</u>	<u>\$1 346 096</u>

**Balance sheet
as at March 31, 2007**

	2007	2006
Assets		
Current assets		
Cash on hand	\$11 918	\$620
Term deposits (3.55%) and accrued interest	1 367 561	1 346 949
	<u>\$1 379 479</u>	<u>\$1 347 569</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. SPECIAL RESEARCH FUND (cont'd)

Balance sheet (cont'd)
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
Liabilities		
Current liabilities		
Researcher-scholarship recipient payable	\$11 587	
Administrative expenses payable	1 799	\$1 473
Fund balance	<u>1 366 093</u>	<u>1 346 096</u>
	<u><u>\$1 379 479</u></u>	<u><u>\$1 347 569</u></u>

13. RELATED PARTY TRANSACTIONS

The Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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. COMMITMENTS

The Fonds is committed under long-term leases for administrative offices whose maturity dates vary until June 30, 2011. These leases include a 10-year renewal option.

Lease payments for the year ended March 31, 2007 totalled \$652 158. Minimum lease payments for the next five fiscal years are:

2008	\$565 872
2009	574 158
2010	613 210
2011	621 770
2012	<u>156 578</u>
	<u><u>\$2 531 588</u></u>

15. FUTURE FRINGE BENEFITS

Pension plan

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

The Fonds' contributions charged to the year-end statement total \$77 840 (2006: \$69 371). Its liability towards these Government plans is restricted to its employer contributions.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

16. FINANCIAL INSTRUMENTS

Bank borrowings

The Fonds has a \$5 000 000, annually renewable bank credit line, guaranteed by current and future receivables from Ministère du Développement économique, de l'Innovation et de l'Exportation subsidies receivable. Amounts used bear interest at the prime rate plus 0.5% annually, i.e. 6.5% at the date of the balance sheet (2006: 6%). At March 31, 2006 and 2007, this credit line had not been used.

The Fonds also had a \$20 000 000 credit line bearing interest at the prime rate with the Minister of Finances. This credit line expired on March 31, 2007 and the Fonds is currently renewing it for a five year period with the same conditions.

Fair value

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

17. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

MANAGEMENT'S REPORT

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

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

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

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

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

Alain Beaudet
President and Chief Executive Officer

Claude Brouillette
Assistant to the Chief Executive Officer

Montréal, June 15, 2007

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds de la recherche en santé du Québec as at March 31, 2007 and the statement of operations for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 25, 2007

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

STATEMENT OF RESULTS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Customers of travel agents' contributions	\$9 598 357	\$8 032 345
Wholesalers' contributions	2 450 907	2 378 539
Investment income	957 211	407 990
Cancelled contributions (Note 3)	<u>5 600</u>	<u>68 222</u>
	<u>13 012 075</u>	<u>10 887 096</u>
EXPENSES		
Net claims and trust charges	1 116 380	131 733
Administrative expenses – Government of Québec	115 730	136 304
Interest on long-term debt	<u>240 625</u>	<u>249 320</u>
	<u>1 472 735</u>	<u>517 357</u>
EXCESS OF REVENUES OVER EXPENSES	11 539 340	10 369 739
CUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>6 896 871</u>	<u>(3 472 868)</u>
CUMULATED SURPLUS, END OF YEAR	<u>\$18 436 211</u>	<u>\$6 896 871</u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$796 606	\$1 350 859
Demand deposits in the General Fund of the Caisse de dépôt et placement du Québec – at cost	301 565	1 307 224
Investment income receivable	99 084	53 139
Accounts receivable (Note 4)	2 944 679	2 860 830
	<u>4 141 934</u>	<u>5 572 052</u>
Participation deposits in a special fund of the Caisse de dépôt et placement du Québec (Note 5)	19 385 988	10 905 459
Basic contributions refunded in advance	<u>25 000</u>	<u>221 500</u>
	<u>\$23 552 922</u>	<u>\$16 699 011</u>
 LIABILITIES		
Current liabilities		
Claims and expenses payable	\$1 161 536	\$413 469
Interest accrued on long-term debt	62 137	475 606
	<u>1 161 536</u>	<u>475 606</u>
Long-term debt (Note 6)	2 400 000	4 800 000
Basic contributions (Note 7)	1 555 175	4 526 534
	<u>5 116 711</u>	<u>9 802 140</u>
CUMULATED SURPLUS	<u>18 436 211</u>	<u>6 896 871</u>
	<u>\$23 552 922</u>	<u>\$16 699 011</u>
 CONTINGENCY (Note 10)		

The notes are an integral part of these financial statements.

Yvan Turcotte
President, Office de la
protection du consommateur

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$11 539 340	\$10 369 739
Change in non-cash items related to operations		
Investment income receivable	(45 945)	(28 957)
Accounts receivable	(83 849)	(495 650)
Additional contributions receivable		2 500
Claims and expenses payable	748 067	(688 554)
Interest accrued on long-term debt	(62 137)	(546 493)
Basic contributions refundable		(12 250)
Capitalization of interest on demand deposits in the General Fund of the Caisse de dépôt et placement du Québec	(864 870)	(319 675)
	(308 734)	(2 089 079)
Cash flows from operating activities	11 230 606	8 280 660
INVESTMENT ACTIVITIES		
Proceeds on sale of term deposits		1 700 000
Acquisition of demand deposits in the General Fund of the Caisse de dépôt et placement du Québec	(6 610 000)	(10 000 000)
Proceeds on sale of demand deposits in the General Fund of the Caisse de dépôt et placement du Québec	8 480 529	9 220 689
Acquisition of participation deposits in a special fund of the Caisse de dépôt et placement du Québec	(8 480 529)	(8 220 688)
Decrease in basic contributions refunded in advance	196 500	3 250
Cash flows for investment activities	(6 413 500)	(7 296 749)
FINANCING ACTIVITIES		
Long-term debt repayment	(2 400 000)	(1 200 000)
Basic contributions repayment	(2 971 359)	(306 872)
Cash flows for financing activities	(5 371 359)	(1 506 872)
DECREASE IN CASH	(554 253)	(522 961)
CASH, BEGINNING OF YEAR	1 350 859	1 873 820
CASH, END OF YEAR	\$796 606	\$1 350 859
 INTEREST PAID IN FISCAL YEAR	 \$302 762	 \$795 813

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2007

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.

2. ACCOUNTING POLICIES

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

Revenue reporting

Customers of travel agents' and wholesalers' contributions are posted to revenues when they are received or receivable if the amount receivable can be reasonably estimated and it is reasonably certain that it will be received.

Net claims and trust fees

Individual losses are estimated for each claim and a provision is established. The estimates are revised and updated regularly and any resulting adjustment is included in the result for the fiscal year in which it is discovered.

Administrative expenses

Among other things, administrative expenses include expenses related to investment, recovery and disbursement operations and transaction reporting. A portion of the salaries paid by the government is posted to the Fonds d'indemnisation des clients des agents de voyages.

Participation deposits in the General Fund of the Caisse de dépôt et placement du Québec

Participation deposits are posted at acquisition cost.

3. CANCELLED CONTRIBUTIONS

Cancelled contributions are basic contributions that travel agents who ceased operations failed to claim within the prescribed time frame and those for which consumer claims exceeded this contribution.

4. ACCOUNTS RECEIVABLE

	2007	2006
Interim administrators	\$164 219	\$351 513
Travel agencies	2 780 460	2 509 317
	<u>\$2 944 679</u>	<u>\$2 860 830</u>

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 20075. PARTICIPATION DEPOSITS IN A SPECIAL FUND OF THE CAISSE DE DÉPÔT
ET PLACEMENT DU QUÉBEC

Participation deposits in a special fund of the Caisse de dépôt et placement du Québec comprise units that are refunded with prior notice in accordance with the Caisse's terms of payment at the market value of the fund's net equity at months' end.

	2007	2006
Number of units	20 043	11 489
Cost of units	\$19 385 988	\$10 905 459
Fair value of units	\$20 543 947	\$11 326 365
Fair value per units	\$1 025	\$986

6. LONG-TERM DEBT

	2007	2006
Gouvernement du Québec advance, bearing interest at the National Bank of Canada prime rate, without repayment terms, expiring in March 2009	<u>\$2 400 000</u>	<u>\$4 800 000</u>

7. BASIC CONTRIBUTIONS – COLLECTIVE SECURITY

	2007	2006
Retailers	\$50 175	\$2 894 034
Wholesalers	<u>1 505 000</u>	<u>1 632 500</u>
	<u>\$1 555 175</u>	<u>\$4 526 534</u>

8. FINANCIAL INSTRUMENTS

Fair value

Current assets and liabilities are financial instruments whose fair value resembles their book value, given that they mature in the short-term. The long-term debt's fair value equals its book value, given the absence of terms of repayment.

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

10. CONTINGENCY

A class action was listed with the Superior Court on October 9, 2002 against a retailer and a wholesaler. On June 12, 2006, a Superior Court ruling ordered the defendant (the Fonds) to pay the applicant \$2.4 million, which includes compensation for moral and material damages. Under the Regulation respecting travel agents that came into effect on November 11, 2004, the Fonds d'indemnisation des clients des agents de voyages is not responsible for moral damages. Material damages represent approximately \$185 000. A provision for this amount was posted to results for the fiscal year ended March 31, 2006 under Claims and trust charges.

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 prepared by management, which is responsible for their preparation and presentation and the significant estimates and judgments included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual activity report of the Office de la protection du consommateur is consistent with that presented in the financial statements.

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

The Fonds' 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 audited the Fonds' financial statements as at March 31, 2006 in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

André Derome
Coordinator, Licensing Department

Yvan Turcotte
President of the Office de la
protection du consommateur

Québec, June 29, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation des clients des agents de voyages as at March 31, 2007 and the statements of results and cumulated surplus and cash flows for fiscal year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at March 31, 2007 and the results of its operations and cash flows for the fiscal year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 29, 2007

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER
(R.S.Q., c. C-73.1)

STATEMENT OF RESULTS AND SURPLUS
for the year ended December 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Dues	\$258 740	\$244 750
Investment income	322 426	658 822
Other income	<u>1 262</u>	
	<u>582 428</u>	<u>903 572</u>
EXPENSES		
Management fees	94 977	93 024
Provision for indemnities (Note 4)	67 895	129 786
Professional fees	80 874	26 046
Travel and accommodation expenses	19 545	13 486
Directors' fees	9 812	10 722
Publications	6 199	3 522
Office expenses	8 720	9 153
Communication and public relations	107 028	108 681
Liability Insurance Fund contribution (Note 5)	<u>3 231 300</u>	
	<u>3 626 350</u>	<u>394 420</u>
EXCESS OF EXPENSES OVER REVENUES	(3 043 922)	509 152
SURPLUS, BEGINNING OF YEAR	<u>5 673 540</u>	<u>5 164 388</u>
SURPLUS, END OF YEAR	<u><u>\$2 629 618</u></u>	<u><u>\$5 673 540</u></u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**BALANCE SHEET**
as at December 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	\$82 879	\$26 348
Investments (Note 3)	2 849 445	5 816 780
Accounts receivable	203 995	197 634
Accrued interest	28 260	40 880
Prepaid expenses	<u>5 308</u>	<u>5 287</u>
	<u>\$3 169 887</u>	<u>\$6 086 929</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$112 568	\$44 667
Revenue collected in advance	219 860	205 470
Provision for indemnities (Note 4)	<u>207 841</u>	<u>163 252</u>
	540 269	413 389
SURPLUS (Note 6)	<u>2 629 618</u>	<u>5 673 540</u>
	<u><u>\$3 169 887</u></u>	<u><u>\$6 086 929</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Paul Mayer, Chairman
Lise Légaré, Treasurer

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO THE FINANCIAL STATEMENTS December 31, 2006

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

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Investments

Bonds are posted at amortized cost. Discounts and premiums are amortized in accordance with the straight-line method over the remaining term of each bond certificate. Amortization of bond discounts and premiums is posted as investment income.

3. FINANCIAL INSTRUMENTS

At December 31, 2006, the market value of investments was \$2 835 189 (2005: \$6 006 427). These investments bear interest at rates varying between 3.05% and 7.35%, and mature between January 2007 and July 2017.

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

4. PROVISION FOR INDEMNITIES

The Fonds' policy, on receiving a duly sworn claim, is to provide 25 % of the claim amount to a maximum of \$3 750 (2005: claim amount to a maximum of \$15 000). This provision is maintained until the Fonds' Board of Directors makes its final decision.

	2006	2005
Balance, beginning of year	\$163 252	\$54 000
Provision for indemnities	195 341	159 786
Cancellation of claims from past years	(127 446)	(30 000)
	67 895	129 786
Claim payment	(23 306)	(20 534)
Balance, end of year	\$207 841	\$163 252

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

5. LIABILITY INSURANCE FUND CONTRIBUTION

Under its incorporating legislation, when the Association des courtiers et agents immobiliers du Québec created a Liability Insurance Fund on July 4, 2006, it was deemed that the Fonds d'indemnisation du courtage immobilier would have three months to pay, in a lump sum, any amount exceeding \$2 500 000 of its net equity established on the fifteenth day preceding this payment. The Auditor General of Québec examined the evaluation of net assets on September 10, 2006. The Fonds d'indemnisation paid \$3 231 300 into the Liability Insurance Fund on September 25, 2006.

6. 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, 2006, the surplus includes interest of \$569 851 (2005: \$3 478 725).

7. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**MANAGEMENT'S REPORT**

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

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

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

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

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

Claudie Tremblay
Fund Secretary

Richard Cardinal
Fund Comptroller

Montréal, February 26, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation du courtage immobilier as at December 31, 2006 and the statement of results and surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, February 26, 2007

FONDS EN FIDÉICOMMIS
(R.S.Q., c. D-5)

STATEMENT OF FINANCIAL POSITION
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> (Note 3)
ASSETS		
Cash on hand	1 592	2 064
Securities held		
Bond holders	19 457	17 552
Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment	<u>85 958</u>	<u>77 338</u>
	<u>107 007</u>	<u>96 954</u>
LIABILITIES		
Deposits		
Deposits, guarantees, etc.		
Corporations, organizations and individuals	23 610	22 559
Officers of the law	67 325	57 643
Municipalities	<u>15 221</u>	<u>13 447</u>
	106 156	93 649
Payable to Revenu Québec's Direction des biens non réclamés	<u>851</u>	<u>3 305</u>
	<u>107 007</u>	<u>96 954</u>

François Tardif
Administrator, Fonds en fidéicommis

Jean Houde
Deputy Minister of Finance

FONDS EN FIDÉICOMMIS

STATEMENT OF CHANGE IN DEPOSITS
for the fiscal year ended March 31, 2007
(in thousands of dollars)

	Balance at March 31, 2006	Increase	Decrease	Balance at March 31, 2007
Deposits, guarantees, etc.				
Corporations, organizations and individuals	22 559	88 962	87 911	23 610
Officers of the law	57 643	119 829	110 147	67 325
Municipalities	13 447	2 534	760	15 221
	<u>93 649</u>	<u>211 325</u>	<u>198 818</u>	<u>106 156</u>
Payable to Revenu Québec's Direction des biens non réclamés	<u>3 305</u>		<u>2 454</u>	<u>851</u>
	<u>96 954</u>	<u>211 325</u>	<u>201 272</u>	<u>107 007</u>

FONDS EN FIDÉICOMMIS**NOTES TO FINANCIAL STATEMENT**

March 31, 2007

(in thousands of dollars)

1. NATURE OF THE FONDS EN FIDÉICOMMIS AND ADMINISTRATIVE POLICIES

The Fonds en fidéicommis comprises amounts of money and securities held for the purpose 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).

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 disclosed in the financial statements.

2. ACCOUNTING POLICIES

The financial statements were prepared by management in keeping with Canadian generally recognized accounting principles.

The securities held are shown at face value since they are remitted to the depositors at this value.

3. CHANGE IN ACCOUNTING POLICY

The amounts collected and credits for inputs administered by the Government of Canada for the goods and services tax are no longer disclosed in the financial statements of the Fonds en fidéicommis since it is not the Minister of Finance that manages these amounts. The financial statements for the fiscal year ended March 31, 2006 have been adjusted to reflect this change. At March 31, 2006, the item "Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment" included \$357 million for the goods and services tax. This amount was also shown under the item "Goods and services tax" as a liability.

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of financial position of the Fonds en fidéicommis as at March 31, 2007 and the statement of change in deposits for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds en fidéicommis as at March 31, 2007 and the change in deposits for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, January 25, 2008

FONDS EN FIDÉICOMMIS – GOODS AND SERVICES TAX
BALANCE SHEET
 as at March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment	<u>101 435</u>	<u>357 020</u>
LIABILITIES		
Goods and services tax payable to the Government of Canada	<u>101 435</u>	<u>357 020</u>

Raymond Boisvert
 Administrator, Fonds en fidéicomis
 Goods and services tax

Francine Martel-Vaillancourt
 Deputy Minister of Revenu Québec

STATEMENT OF CHANGE IN DEPOSITS
 for the fiscal year ended March 31, 2007
 (in thousands of dollars)

	<u>Balance at March 31, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at March 31, 2007</u>
Goods and services tax	<u>357 020</u>	<u>13 426 162</u>	<u>13 681 747</u>	<u>101 435</u>

FONDS EN FIDÉICOMMIS – GOODS AND SERVICES TAX**NOTES TO THE FINANCIAL STATEMENT**

March 31, 2007

(in thousands of dollars)

1. NATURE OF THE FONDS EN FIDÉICOMMIS – GOOD AND SERVICES TAX

The financial data related to the goods and services tax for the fiscal years ended March 31, 2006 and previous were presented in the financial statements of the Fonds en fidéicomis du gouvernement du Québec, administered by the Ministère des Finances. Following an administrative decision, Revenu Québec's Fonds en fidéicomis – goods and services tax was set up to separately present the financial data related to the goods and services tax as of March 31, 2007. The balances for the fiscal year ended March 31, 2006 have been presented for comparison purposes.

The Fonds en fidéicomis – goods and services tax comprises amounts collected and credits for inputs administered for the Government of Canada as goods and services tax under an agreement concluded with the Gouvernement du Québec.

2. ACCOUNTING POLICIES

The financial statements were prepared by Revenu Québec in keeping with Canadian generally accepted accounting principles.

FONDS NATIONAL DE FORMATION DE LA MAIN-D'ŒUVRE
(R.S.Q., c. D-7.1)

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Employer contributions (Note 3)	20 468	22 202
Interest	2 238	1 640
Fees and charges	<u>786</u>	<u>791</u>
	<u>23 492</u>	<u>24 633</u>
EXPENSES		
Employer subsidies (Note 4)	34 145	27 752
Management fees (Note 5)	3 492	4 161
Contribution collection fees	760	367
Promotion and advertising		8
Amortization of capital assets		<u>1</u>
	<u>38 397</u>	<u>32 289</u>
ANNUAL DEFICIT	(14 905)	(7 656)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>81 191</u>	<u>88 847</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>66 286</u></u>	<u><u>81 191</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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Consolidated Revenue Fund advance (Note 6)	52 188	65 248
Employer contributions receivable	15 742	17 623
Accounts receivable (Note 7)	<u>522</u>	<u>744</u>
	<u>68 452</u>	<u>83 615</u>
 LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2 166	2 424
ACCUMULATED SURPLUS	<u>66 286</u>	<u>81 191</u>
	<u><u>68 452</u></u>	<u><u>83 615</u></u>

COMMITMENTS (Note 9)

The notes are an integral part of these financial statements.

Dominique Savoie,
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 THE FINANCIAL STATEMENTS

March 31, 2007

(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) to promote and support manpower training measures and initiatives. 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

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Employer contributions

Under the Fonds' incorporating legislation, employers are required to pay a contribution corresponding to the difference between the minimum participation and eligible training expenditures for the calendar year into it. These employer contributions, which are collected by the Minister of Revenue on behalf of the Fonds, are posted in keeping with 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 in the fiscal year in which they are known.

Interest, royalties and fees

Interest, royalties and fees are posted when earned, provided that measurement and collection of the amount concerned is reasonably certain.

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. Subsidy overpayment recovery reduced expenditures in the fiscal year in which they are recovered or recoverable.

Capital assets

Capital assets, comprising computer equipment, are recorded at cost and amortized over their probable service life in accordance with the straight-line method and a 3-year period.

3. EMPLOYER CONTRIBUTIONS

	2007	2006
Amount declared for the year	16 137	17 042
Net amount for previous years	4 331	5 160
	<u>20 468</u>	<u>22 202</u>

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

4. EMPLOYER SUBSIDIES

	2007	2006
Subsidies for the current year:	34 616	29 178
Adjustments known for the year:		
Subsidy overpayments	(784)	(1 426)
Unrecoverable subsidy overpayments	313	
	<u>34 145</u>	<u>27 752</u>

5. 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, 2007 (2006: 59). These individuals are responsible for the information, promotion and enforcement of the Act and its regulations and for the administration of the Fund.

Management fees received free of charge from the Ministère de l'Emploi et de la Solidarité sociale are not shown in the Fonds' financial statements.

6. CONSOLIDATED REVENUE FUND ADVANCE

The advance bears interest at the reduced prime rate of 2.5%, which represents 3.5% at March 31, 2007 (2006: 3%) and includes no terms and conditions of repayment.

7. ACCOUNT RECEIVABLE

	2007	2006
Interest receivable – Consolidated Revenue Fund	496	480
Employer subsidy overpayments	26	264
	<u>522</u>	<u>744</u>

8. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Computer equipment	24	24		

9. COMMITMENTS

The Fonds committed to providing financial support for projects promoting and supporting manpower training measures and initiatives. The balance of commitments at March 31, 2007 was \$23 274 198 (\$24 297 614 at March 31, 2006).

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

11. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities equals their book value, given that they mature in the short term.

12. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

The financial statements of the Fonds national de formation de la main-d'oeuvre were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included thereon, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. Management has approved the financial statements.

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

Dominique Savoie
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, August 2, 2007

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE**AUDITOR'S REPORT**

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, 2007 and the statement of operations and accumulated surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding fiscal year.

Renaud Lachance, CA
Auditor General of Québec

Québec, August 2, 2007

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES
(R.S.Q., c. M-30.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 3)	\$41 194 795	\$40 841 445
INTEREST AND OTHER INCOME	<u>1 059 874</u>	<u>1 275 685</u>
	<u>42 254 669</u>	<u>42 117 130</u>
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	25 429 401	27 646 261
Scholarships	<u>8 887 154</u>	<u>8 636 075</u>
	<u>34 316 555</u>	<u>36 282 336</u>
	7 938 114	5 834 794
OPERATING EXPENSES (Note 4)	<u>4 093 698</u>	<u>4 528 146</u>
EXCESS REVENUES OVER EXPENSES	3 844 416	1 306 648
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>3 325 129</u>	<u>2 018 481</u>
CUMULATED SURPLUS, END OF YEAR (Note 5)	<u>\$7 169 545</u>	<u>\$3 325 129</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, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$2 080 646	\$1 266 154
Term deposits (4.02% and 4.10%)	10 000 000	5 500 000
Accrued interest	438 107	16 560
Subsidies and other accounts receivable (Note 6)	2 262 569	2 461 896
Prepaid expenses	53 080	80 063
	<u>14 834 402</u>	<u>9 324 673</u>
Sums held on behalf of granting agencies (Note 7)	1 312 974	1 402 109
Capital assets (Note 8)	162 079	304 143
Intangible assets (Note 9)	<u>329 171</u>	<u>587 725</u>
	<u>\$16 638 626</u>	<u>\$11 618 650</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$506 107	\$601 734
Deferred subsidies from agencies	7 610 193	6 188 376
Deferred government subsidies	33 295	92 509
Short-term portion of long-term debt (Note 12)	<u>2 281</u>	<u>2 137</u>
	<u>8 151 876</u>	<u>6 884 756</u>
Long-term debt (Note 12)	795	3 076
Amounts payable on behalf of granting agencies (Note 7)	<u>1 316 410</u>	<u>1 405 689</u>
	<u>9 469 081</u>	<u>8 293 521</u>
CUMULATED SURPLUS (Note 5)	<u>7 169 545</u>	<u>3 325 129</u>
	<u>\$16 638 626</u>	<u>\$11 618 650</u>
COMMITMENTS (Note 13)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Sylvie Dillard
Brigitte Jaumard

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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, de l'Innovation et de l'Exportation (R.S.Q., c. M-30.01) to promote and provide financial assistance for research and dissemination of knowledge in the natural sciences, mathematics and engineering for research training by granting proficiency scholarships to graduate students and individuals conducting post-graduate research, professional development scholarships to those wishing to re-enter research circles and subsidies to enable college professors involved in research activities to reduce their teaching load.

The Fonds also administers university graduate student scholarship programs and subsidy programs. It establishes any partnership required with the universities, colleges, industry, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la nature et les technologies is an agent of the Gouvernement du Québec. As such, it does not pay federal or provincial income tax.

2. ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Subsidies from the Gouvernement du Québec and other agencies

Subsidies from the Gouvernement du Québec and other agencies are reported as revenues for the fiscal year in which the related expenses were incurred. Unappropriated subsidies are posted to revenues when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are recorded once they have been authorized and the recipients have met the eligibility criteria. Cancellations or reimbursement of grants and scholarships awarded are reported in the fiscal year in which they are cancelled or reimbursed.

Investment income

Interest income is recorded according to the number of days the investment is held in the fiscal year.

Other revenues

Other revenues are recorded when the services are rendered to customers, when the selling price is, or can be, determined.

Capital assets

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

	Rate
Office furniture and equipment	20%
Data processing equipment	33.33%
Leasehold improvements	20%

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Computer development is recorded at cost and amortized over its estimated service life in accordance with the straight-line method at 20%.

Amortization of long-term assets

Long-term assets undergo a depreciation test when events or circumstances indicate that their book value exceeds total unrealized cash flows resulting from the use and eventual withdrawal of these assets. A loss in value must be calculated as the long-term asset's surplus book value over fair value. At March 31, 2007, no loss in value had been posted.

3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2007	2006
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$37 169 700	\$35 530 100
Joint action partners	2 650 891	3 941 962
Partnership projects (CANTOR)	506 340	757 823
Other	867 864	611 560
	<u>\$41 194 795</u>	<u>\$40 841 445</u>

4. THE FONDS' OPERATING EXPENSES

	2007	2006
Salaries		
Wages	\$2 424 313	\$2 596 461
Training and professional development	15 120	23 290
Professional dues	1 971	749
	<u>2 441 404</u>	<u>2 620 500</u>
Services		
Fees	346 283	365 617
Lease		
Rent paid to the Société immobilière du Québec	203 347	212 168
Insurance	18 427	17 426
Maintenance and repairs	119 682	171 533
Rental	3 234	3 080
	<u>344 690</u>	<u>404 207</u>
Communications	87 575	87 310
Transportation and accommodations	283 367	183 744
Amounts carried forward	<u>\$3 503 319</u>	<u>\$3 661 378</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. THE FONDS' OPERATING EXPENSES (cont'd)

	2007	2006
Amounts brought forward	<u>\$3 503 319</u>	<u>\$3 661 378</u>
Other expenses		
Telecommunications	35 010	55 134
Photocopies	21 937	43 741
Mailing costs	22 088	38 024
Office expenditures	30 540	37 525
Other expenses	3 396	3 170
Financial charges	<u>629</u>	<u>228</u>
	<u>113 600</u>	<u>177 822</u>
Amortization		
Capital assets	218 225	418 177
Intangible assets	<u>258 554</u>	<u>270 769</u>
	<u>476 779</u>	<u>688 946</u>
	<u><u>\$4 093 698</u></u>	<u><u>\$4 528 146</u></u>

5. CUMULATED SURPLUS

The Fonds' Board of Directors has reserved a portion of the surplus for awarding 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:

	2007	2006
Research scholarships and grants	\$5 761 038	\$2 113 852
Partnership project (CANTOR)	<u>108 467</u>	<u>77 656</u>
	<u><u>\$5 869 505</u></u>	<u><u>\$2 191 508</u></u>

6. SUBSIDIES RECEIVABLE AND OTHER RECEIVABLES

	2007	2006
Fonds québécois de la recherche sur la société et la culture	\$224 494	\$360 262
Ministère du Développement économique, de l'Innovation et de l'Exportation	17 500	50 000
Fonds de la recherche en santé du Québec	4 716	154 450
Fonds de la recherche forestière Saguenay-Lac-St-Jean Forestry	496 503	
Ministère des Ressources naturelles et de la Faune	1 470 000	1 600 000
Canadian Institutes of Health Research	12 793	297 144
Other	<u>36 563</u>	<u>40</u>
	<u><u>\$2 262 569</u></u>	<u><u>\$2 461 896</u></u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. SUMS HELD ON BEHALF OF GRANTING AGENCIES

Under agreements with various agencies, the Fonds assumes certain operations related to the allocation of research grants in specific fields. The Fonds acts solely as an intermediary by providing expertise in this matter. Except for management fees, these operations are not shown in the Fonds' operating results.

The operations related to these agreements break down as:

	Perspectives STS	Environnement	Cité de l'optique	Total
Balance, beginning of year	\$185 942	\$587 403	\$632 344	\$1 405 689
Increase				
Deposits	20 000			20 000
Interest on bank deposits	6 954	20 742	24 321	52 017
	<u>212 896</u>	<u>608 145</u>	<u>656 665</u>	<u>1 477 706</u>
Decrease				
Research grants	48 699	105 643		154 342
Transfer of interest to Fonds	6 954			6 954
	<u>55 653</u>	<u>105 643</u>		<u>161 296</u>
Balance, end of year	<u>\$157 243</u>	<u>\$502 502</u>	<u>\$656 665</u>	<u>\$1 316 410</u>

These amounts break down as:

Amounts held for subsidizing agencies – cash	\$1 312 974
Accrued interest	3 436
	<u>\$1 316 410</u>

8. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$226 370	\$188 505	\$37 865	\$78 040
Data processing equipment	968 902	897 531	71 371	100 028
Leasehold improvements	376 458	323 615	52 843	126 075
	<u>\$1 571 730</u>	<u>\$1 409 651</u>	<u>\$162 079</u>	<u>\$304 143</u>

Disbursements related to acquisitions for the fiscal year totalled \$42 136 (2006: \$97 000).

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Computer development	\$1 351 895	\$1 022 724	\$329 171
			\$587 725

There were no acquisitions this fiscal year (2006: \$113 564).

10. CREDIT FACILITIES

The Fonds has credit facilities of up to \$10 000 000 with the Financing Fund until March 31, 2012. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2007, these credit facilities were unused.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Fonds québécois de la recherche sur la société et la culture		\$142 941
Fonds de la recherche en santé du Québec		4 224
Suppliers	\$168 838	150 254
Salaries and vacation time payable	337 269	304 315
	\$506 107	\$601 734

Capital assets of \$34 025 (2006: 0) are included in accounts payable.

12. LONG-TERM DEBT

	2007	2006
Note payable to Rogers Télécom inc., fixed rate of 6.56% repayable in monthly instalments of \$201 in and interest, maturing in July 2008	\$3 076	\$5 213
Short-term portion	2 281	2 137
	\$795	\$3 076

Capital payments to be made in the next two fiscal years are:

2007-2008	\$2 281
2008-2009	\$795

Interest payable on the long-term debt totalled \$278 (2006: \$261).

13. COMMITMENTS

At March 31, 2007, the Fonds' commitments totalled \$38 408 885 (2006: \$32 829 445) for grants and \$9 865 799 (2006: \$8 531 832) for scholarships. Awarding of grants and scholarships, however, depends on the funds allocated by the National Assembly, with the exception of amounts reserved in the cumulated surplus.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements at exchange value, the Fonds is a related party to all government, departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not 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 fair value of short-term financial instruments equals their book value, given that they mature in the near future and the commercial conditions they include.

The fair value of amounts payable to subsidizing agencies equals their book value, given that these amounts comprise short-term financial assets.

The fair value of obligations resulting from the long-term debt is determined using the actualized value of future cash flows under financing agreements and interest rates offered on the market to the Fonds for borrowings with similar terms and conditions.

The following table shows the book value and fair value of the Fonds' long-term financial instruments:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Long-term debt (including the short-term portion)	\$3 076	\$3 134	\$5 213	\$5 375

16. FUTURE FRINGE BENEFITS

The supplemental pension plan for staff members of the Fonds pour la formation de chercheurs et l'aide à la recherche is a defined-contribution plan. The Fonds' liability towards this plan is restricted to its employer contributions. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement totalled \$88 785 (2006: \$97 432) and represent current service pension costs.

17. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**MANAGEMENT'S REPORT**

The financial statements of the Fonds québécois de la recherche sur la nature et les technologies were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting policies. 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 to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The 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 do not belong to management. The finance committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Sylvie Dillard
President and Chief Executive Officer

Lucie Girard
Director of Administration and Evaluation

Québec, May 17, 2007

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la nature et les technologies as at March 31, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 17, 2007

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE
(R.S.Q., c. M-30.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 3)	\$46 258 681	\$46 564 052
INTEREST AND OTHER INCOME	<u>1 096 227</u>	<u>630 907</u>
	<u>47 354 908</u>	<u>47 194 959</u>
 GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	27 320 104	29 978 962
Scholarships	<u>12 688 122</u>	<u>14 083 789</u>
	<u>40 008 226</u>	<u>44 062 751</u>
	7 346 682	3 132 208
OPERATING EXPENSES (Note 4)	<u>3 824 023</u>	<u>3 786 532</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	3 522 659	(654 324)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>2 569 020</u>	<u>3 223 344</u>
CUMULATED SURPLUS, END OF YEAR (Note 5)	<u><u>\$6 091 679</u></u>	<u><u>\$2 569 020</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, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$1 122 135	\$1 139 607
Term deposit (4.02% and 4.10%)	12 000 000	7 500 000
Accrued interest	572 873	14 527
Subsidies and other accounts receivable (Note 6)	2 048 606	2 821 778
Prepaid expenses	32 130	21 578
	<u>15 775 744</u>	<u>11 497 490</u>
Capital assets (Note 7)	127 200	249 840
Intangible assets (Note 8)	<u>177 661</u>	<u>174 453</u>
	<u>\$16 080 605</u>	<u>\$11 921 783</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$445 475	\$675 110
Deferred subsidies from agencies	9 362 347	8 414 921
Short-term portion of long-term debt (Note 11)	45 469	81 628
	<u>9 853 291</u>	<u>9 171 659</u>
Long-term debt (Note 11)	<u>135 635</u>	<u>181 104</u>
	9 988 926	9 352 763
CUMULATED SURPLUS (Note 5)	<u>6 091 679</u>	<u>2 569 020</u>
	<u>\$16 080 605</u>	<u>\$11 921 783</u>
COMMITMENTS (Note 12)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Babin
Alain Noël

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2007

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, de l'Innovation et de l'Exportation (R.S.Q., c. M-30.01) to promote and provide financial assistance for the development of research into and dissemination of knowledge in the social sciences, humanities, education, management, arts and literature; researcher training through the allocation of scholarships to graduate students and individuals doing post-doctoral research; the allocation of professional development bursaries for those wishing to re-enter research circles and the allocation of subsidies to lighten the workloads of college professors involved in research activities. 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. MAIN ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Subsidies from the Gouvernement du Québec and other organizations

Subsidies from the Gouvernement du Québec and other organizations are reported as revenue for the fiscal year in which the related expenses are incurred. Unappropriated subsidies are posted to revenue when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are recorded when authorized and when the recipients have met the eligibility criteria. Cancellations or repayments of grants and scholarships awarded are reported in the fiscal year in which they are cancelled or reimbursed.

Investment income

Interest income is recorded according to the number of days the investment is held in the fiscal year.

Other income

Other income is recorded when the services are rendered to customers, when the selling price is, or can be, determined.

Capital assets

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

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

2. MAIN ACCOUNTING POLICIES (cont'd)

Capital assets (cont'd)

	Rate
Office furniture and equipment	20%
Data processing equipment	33.33%
Leasehold improvements	20%

Intangible assets

Computer development is recorded at cost and amortized over its service life in accordance with the straight-line method at 20%.

Amortization of long-term assets

Long-term assets undergo a depreciation test when events or circumstances indicate that their book value exceeds total unrealized cash flows resulting from the use and eventual withdrawal of these assets. A loss in value must be calculated as the long-term asset's surplus book value over fair value. At March 31, 2007, no loss in value had been posted.

3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2007	2006
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$43 182 900	\$43 137 400
Joint action partners	2 686 781	3 421 652
Other	389 000	5 000
	<u>\$46 258 681</u>	<u>\$46 564 052</u>

4. FONDS' OPERATING EXPENSES

	2007	2006
Salaries		
Wages	\$2 285 558	\$2 052 917
Training and professional development	3 528	7 414
Professional dues	1 579	749
	<u>2 290 665</u>	<u>2 061 080</u>
Services		
Fees	<u>307 268</u>	<u>663 626</u>
Lease		
Rent to the Société immobilière du Québec	268 702	262 745
Insurance	16 498	17 811
Maintenance and repairs	51 906	36 936
Rental	3 439	2 850
	<u>340 545</u>	<u>320 342</u>
Amounts carried forward	<u>\$2 938 478</u>	<u>\$3 045 048</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

4. THE FONDS' OPERATING EXPENSES (cont'd)

	2007	2006
Amounts brought forward	<u>\$2 938 478</u>	<u>\$3 045 048</u>
Communications	<u>74 076</u>	<u>53 047</u>
Transportation and accommodations	<u>326 467</u>	<u>234 677</u>
Other expenses		
Telecommunications	52 258	47 102
Photocopies	41 888	33 969
Mailing costs	27 662	19 475
Office expenditures	39 691	24 541
Other expenses	5 442	3 276
Financial charges	<u>13 533</u>	<u>18 772</u>
	<u>180 474</u>	<u>147 135</u>
Amortization		
Capital assets	188 168	214 178
Intangible assets	<u>116 360</u>	<u>92 447</u>
	<u>304 528</u>	<u>306 625</u>
	<u>\$3 824 023</u>	<u>\$3 786 532</u>

5. CUMULATED SURPLUS

The Fonds' Board of Directors has reserved a portion of the surplus for awarding scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs. The Fonds cannot use this amounts set aside for appropriations of inside origin for other purposes without the Board of Directors' prior consent. These appropriations break down as:

	2007	2006
Research scholarships and bursaries	<u>\$4 491 008</u>	<u>\$1 901 853</u>

6. SUBSIDIES AND OTHER CRÉANCES

	2007	2006
Fonds québécois de la recherche sur la nature et les technologies		\$142 941
Fonds de la recherche en santé du Québec	\$1 776	72
Ministère de l'Éducation, du Loisir et du Sport	1 220 130	1 200 000
Ministère de la Santé et des Services sociaux	780 790	995 265
Other	<u>45 910</u>	<u>483 500</u>
	<u>\$2 048 606</u>	<u>\$2 821 778</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

7. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$250 457	\$224 394	\$26 063	\$65 595
Data processing equipment	225 822	177 324	48 498	24 654
Leasehold improvements	550 322	497 683	52 639	159 591
	<u>\$1 026 601</u>	<u>\$899 401</u>	<u>\$127 200</u>	<u>\$249 840</u>

Acquisitions paid for in the fiscal year totalled \$28 161 (2006: \$31 354).

8. INTANGIBLE ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Data processing development	<u>\$581 802</u>	<u>\$404 141</u>	<u>\$177 661</u>	<u>\$174 453</u>

Acquisitions paid for in the fiscal year totalled \$106 725 (2006: \$11 509).

9. CREDIT FACILITIES

The Fonds has a credit line of up to \$10 000 000 with the Financing Fund until March 31, 2012. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2007, these credit facilities were unused.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Fonds québécois de la recherche sur la nature et les technologies	\$224 494	\$360 262
Fonds de la recherche en santé du Québec		1 350
Salaries and vacation time payable	208 593	278 364
Others	12 388	35 134
	<u>\$445 475</u>	<u>\$675 110</u>

Fixed assets of \$37 367 (2006: 0) and an intangible asset of \$12 843 (2006: 0) are included in expenses payable.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

11. LONG-TERM DEBT

	2007	2006
Note payable to the Société immobilière du Québec, fixed rate of 6.68%, repayable in monthly instalments of \$3 649 in capital and interest, matured in February 2007		\$38 835
Note payable to the Société immobilière du Québec, fixed rate of 6.08%, repayable in monthly instalments of \$4 602 in capital and interest, maturing in November 2010	\$181 104	223 897
	181 104	262 732
Short-term portion	45 469	81 628
	<u>\$135 635</u>	<u>\$181 104</u>
Principal payments for the next four fiscal years are:		
2007-2008		\$45 469
2008-2009		48 311
2009-2010		51 331
2010-2011		35 993

Interest paid on the debt totalled \$13 743 (2006: \$19 000).

12. COMMITMENTS

As at March 31, 2007, Fonds commitments amount to \$35 978 929 (2006: \$45 148 554) for grants and \$12 386 828 (2006: \$16 726 006) for scholarships. Whether these grants and scholarships are awarded depends on the appropriations allotted by the National Assembly, with the exception of amounts reserved in the cumulated surplus.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the 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 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 book value of short-term assets and liabilities is a reasonable estimate of their fair value, given that they mature in the short term and the commercial conditions they include.

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.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

14. FINANCIAL INSTRUMENTS (cont'd)

The following table indicates the book value and fair value of the Fonds' long-term financial instruments:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$181 104</u>	<u>\$187 595</u>	<u>\$262 732</u>	<u>\$272 344</u>

15. FUTURE FRINGE BENEFITS

The supplemental pension plan for staff members of the Fonds is a defined-contribution plan. The Fonds' liability towards this plan is restricted to its employer contributions. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement totalled \$84 628 (2006: \$75 428) and represent current service pension costs.

16. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**MANAGEMENT'S REPORT**

The financial statements of the Fonds québécois de la recherche sur la société et la culture were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. The 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 to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The 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 do not belong to management. The finance committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Jacques Babin
President and Chief Executive Officer

Lucie Girard
Vice-president of Administration and Information

Québec, May 17, 2007

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la société et la culture as at March 31, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 17, 2007

HÉMA-QUÉBEC
(R.S.Q., c. H-1.1)

STATEMENT OF OPERATING RESULTS
for the year ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Blood products sold to Québec hospitals	239 958	238 554
Grant from the Government of Québec	20 679	14 098
Interest on term deposits	1 204	1 143
Other	<u>2 407</u>	<u>1 627</u>
	264 248	255 422
EXPENSES (Note 4)	<u>262 598</u>	<u>254 228</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>1 650</u></u>	<u><u>1 194</u></u>

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

STATEMENT OF NET ASSETS
for the year ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
NET ASSETS AT BEGINNING OF YEAR	1 194	17 291
Excess of revenues over expenses	<u>1 650</u>	<u>1 194</u>
	2 844	18 485
Transfer to the Government of Québec (Note 3)	<u>1 194</u>	<u>17 291</u>
NET ASSETS AT END OF YEAR	<u><u>1 650</u></u>	<u><u>1 194</u></u>

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

HÉMA-QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Short-term		
Cash		4 592
Short-term investments (Note 5)	15 000	91
Accounts receivable (Note 6)	8 178	8 208
Grant forthcoming from the Government of Québec	22	83
Inventory (Note 7)	19 266	16 767
Prepaid expenses (Note 8)	<u>2 049</u>	<u>4 859</u>
	44 515	34 600
Fixed assets (Note 9)	36 746	37 605
Deferred charges (Note 10)	1 635	1 695
Accrued benefit asset (Note 14)	<u>669</u>	<u>1 199</u>
	<u>83 565</u>	<u>75 099</u>
LIABILITIES		
Short-term		
Bank overdraft (Note 11)	2 525	
Accounts payable and accrued liabilities (Note 12)	26 875	27 860
Advance from the Government of Québec, non interest bearing	11 838	4 546
Payment on long-term debt (Note 13)	<u>5 419</u>	<u>5 216</u>
	46 657	37 622
Long-term debt (Note 13)	32 057	33 334
Accrued benefit liability (Note 14)	3 201	2 949
NET ASSETS	<u>1 650</u>	<u>1 194</u>
	<u>83 565</u>	<u>75 099</u>

COMMITMENTS (Note 16)

On behalf of the Board of Directors
Cheryl Campbell Steer, Chair of the Board of Directors
Jean-Pierre Allaire, Director

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

HÉMA-QUÉBEC

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

	2007	2006
OPERATING ACTIVITIES		
Excess of revenues over expenses	1 650	1 194
Items not affecting cash and cash equivalents		
Depreciation of fixed assets	4 959	4 632
Depreciation of deferred charges	60	60
Loss on write-offs and disposal of assets	5	42
Unrealized exchange loss	17	340
Decrease (increase) in accrued benefit asset	530	(645)
Increase in accrued benefit liability	252	137
	7 473	5 760
Changes in non-cash working capital		
Decrease in accounts receivable	30	811
Decrease in grant forthcoming from the Government of Québec	61	54
Decrease (increase) in inventory	(2 499)	1 865
Decrease (increase) in prepaid expenses	2 810	(204)
Decrease in payables and accrued liabilities	(985)	(2 560)
Increase in advance from the Government of Québec	7 292	4 546
Cash flows from operating activities	14 182	10 272
INVESTING ACTIVITIES		
Acquisition of fixed assets	(4 109)	(3 928)
Proceeds from disposal of fixed assets	4	2
Cash flows from investing activities	(4 105)	(3 926)
FINANCING ACTIVITIES		
Long-term debt	4 171	4 614
Repayment of long-term debt	(5 245)	(5 698)
Decrease in net assets	(1 194)	(17 291)
Cash flows from financing activities	(2 268)	(18 375)
Unrealized exchange loss on cash and non-cash working capital elements denominated in foreign currency	(17)	(340)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7 792	(12 369)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4 683	17 052
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12 475	4 683

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

HÉMA-QUÉBEC

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

Cash and cash equivalents are as follows:

	<u>2007</u>	<u>2006</u>
Cash		4 592
Bank overdraft	(2 525)	
Short-term investments	<u>15 000</u>	<u>91</u>
	<u>12 475</u>	<u>4 683</u>
Interest paid	<u>1 983</u>	<u>1 992</u>

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

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 2007

(in thousands of dollars)

1. INCORPORATION AND FUNCTION

Héma-Québec, incorporated 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 An Act respecting Héma-Québec and the Haemovigilance Committee (S.Q., 1998, chapter 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; 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

Preparing the financial statements of Héma-Québec in accordance with Canadian generally accepted accounting principles, requires that Management use estimates and assumptions. These estimates affect accounting for assets and liabilities, the presentation of potential assets and liabilities at the financial statement date, as well as accounting for revenues and expenses during the period covered by financial statements. Actual results may differ from these estimates.

Revenue recognition

Revenues resulting from the sale of blood products are recognized at the time of delivery and when payment is reasonably secured.

Inventory

The inventory of stable products, blood drive and laboratory equipment is valued 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 based upon the economic life of fixed assets, using the straight-line depreciation method and 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 currency translation

Foreign currency transactions are accounted for at the average exchange rate in effect on the date of transaction. Monetary assets and liabilities made out in foreign currency 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 date of transaction. Exchange gains and losses related to the translation of monetary assets and liabilities are included in the calculation of the net results for the period.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefit plans**

Héma-Québec offers its employees defined benefit and defined contribution pension plans. Contributions are made by both Héma-Québec and plan members. Héma-Québec also offers its employees certain benefits that apply after termination of employment but before retirement, and provides certain of its retirees with health 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 increases, retirement age of employees and anticipated health care costs.

The benefit obligation is valued using the market interest rate in effect on the valuation date. Pension plan assets are evaluated at fair value. This method is also used to calculate the expected performance of plan assets.

Actuarial gains or losses result, among other things, from the difference between the actual long-term yield of plan assets and the expected yield of those assets, as well as from changes made to the actuarial assumptions used to determine the accrued benefit obligation.

The net actuarial gain or loss is amortized if, at the beginning of the fiscal year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or asset value, whichever is greater.

This surplus is amortized using 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 other benefit plans.

The transitional obligation and past service cost 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 the debit or credit balance of accounts with overdraft facilities and short-term investments whose maturity dates do not exceed three months from the acquisition dates, in cash and cash equivalents.

3. TRANSFER TO THE GOVERNMENT OF QUÉBEC

According to letters patent, Héma-Québec is a non-profit entity. Accordingly, at the government's request, net assets at March 31, 2006 totalling \$1 194 were transferred to the government in February 2007.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

4. EXPENSES BY RESPONSIBILITY CENTRE

	2007				2006
	Labile products	Fractionated products	Other services	Total	Total
Wages and benefits	64 395	428	2 128	66 951	64 623
Medical and blood drive supplies	25 210	559	600	26 369	26 820
Stable products		128 986		128 986	121 895
Purchased services	(925)	1 871	3 094	4 040	3 877
Loss on write-offs and disposal of assets	5			5	42
Exchange loss (gain)	(200)	79		(121)	(54)
Depreciation of fixed assets	4 696	168	95	4 959	4 632
Interest on long-term debt	1 971			1 971	1 980
Insurance	7 905			7 905	8 114
Other expenses	20 865	73	595	21 533	22 299
Subtotal	123 922	132 164	6 512	262 598	254 228
Plasma for fractionation *	(8 373)	8 373			
Total	115 549	140 537	6 512	262 598	254 228

* 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 costs are allocated based on units shipped.

5. SHORT-TERM INVESTMENTS

Héma-Québec holds an investment of \$15 000 (\$0 in 2006) in a trust account, recorded at cost, bearing interest at the rate of 4.25%. As at March 31, 2006, Héma-Québec also had a term deposit of \$91 bearing interest at the rate of 1.30%.

6. ACCOUNTS RECEIVABLE

	2007	2006
Trade accounts receivables	380	174
Sales taxes	1 230	1 547
Security deposit	6 119	6 190
Other accounts receivable	449	297
	8 178	8 208

7. INVENTORY

	2007	2006
Stable products and substitutes	16 969	14 136
Blood drive equipment	1 573	1 788
Laboratory equipment	724	843
	19 266	16 767

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

8. PREPAID EXPENSES

	2007	2006
Insurance	936	3 682
Other	1 113	1 177
	<u>2 049</u>	<u>4 859</u>

9. FIXED ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net value	Net value
Property, plant and equipment				
Land	2 140		2 140	2 140
Building	19 699	4 307	15 392	16 180
Betterment	9 346	2 082	7 264	5 947
Leasehold improvements	1 363	657	706	1 106
Automotive equipment	41	25	16	21
Machinery and equipment	13 030	6 513	6 517	6 824
Office furniture and equipment	3 769	2 717	1 052	1 336
Computer equipment	8 053	7 023	1 030	1 784
	57 441	23 324	34 117	35 338
Intangible assets				
Software and software packages *	7 187	4 558	2 629	2 267
	64 628	27 882	36 746	37 605

* The accumulated cost of work in progress, as at March 31, 2007, totals \$1 279 excluding taxes and is included in the software and software packages category. The amortization of these assets will begin when the projects have been completed.

10. DEFERRED CHARGES

By virtue of an emphyteutic lease, Héma-Québec initially paid \$1 875 to obtain the right to occupy premises at Université Laval for a period of thirty years ending in 2034. The amortization for the current period is \$60 and was recognized in income under "Other expenses". The accumulated amortization using the straight-line method is \$240 (\$180 in 2006).

11. BANK OVERDRAFT

As at March 31, 2007, Héma-Québec had a revolving line of credit of \$15 000 bearing interest at the prime rate less 0.50%.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Suppliers	20 749	22 006
Salaries and fringe benefits	6 126	5 854
	<u>26 875</u>	<u>27 860</u>

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

13. LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
Loan, secured by the land and the building, with a net book value of \$17 532, repayable in monthly instalments of \$36 (including capital and interest), at a fixed rate of 6.19%, renewable in 2008 and maturing in 2023	4 526	4 679
Loan, secured by the land and the building, with a net book value of \$17 532, repayable in monthly instalments of \$54 (capital only), at a fixed rate of 5.79%, renewable in 2009 and maturing in 2027	13 123	13 769
Loan, repayable in monthly instalments of \$100 (including capital and interest), at a fixed rate of 6.01% maturing in 2008	1 898	2 949
Loan, repayable in monthly instalments of \$232 (capital only), and annual payments of \$256 (capital only), at fixed rates varying from 3.82% to 4.98% maturing between 2008 and 2012	9 727	10 154
Loan, repayable in monthly instalments of \$38 (capital only), at fixed rates of 4.43% and 5.41%, renewable in 2008 and 2013 and maturing in 2023 and 2026	8 202	6 999
	<u>37 476</u>	<u>38 550</u>
Short-term portion	<u>(5 419)</u>	<u>(5 216)</u>
	<u>32 057</u>	<u>33 334</u>

The instalments on long-term debt required during the next five years are as follows:

2008	5 419
2009	4 684
2010	3 438
2011	2 232
2012	2 245

14. 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.

Total cash payments

Total cash payments for future benefits for 2007, which consist of Héma-Québec's contributions to its funded pension plans, amounts paid directly to beneficiaries under other non-funded plans and contributions to its defined contribution plan, amounted to \$6 270 (\$6 650 in 2006).

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

14. DESCRIPTION OF BENEFIT PLANS (cont'd)**Dates for the valuation of defined benefit plans**

Héma-Québec determines its accrued benefits obligation and the fair value of pension plan assets for accounting purposes as at March 31 of each year. The effective dates of the most recent actuarial valuations as well as of the upcoming mandatory valuations for the purposes of funding those plans that are funded are as follows:

	Date of the most recent actuarial valuation	Date of mandatory actuarial valuation
Unionized employees' pension plan	December 31, 2005	December 31, 2008
Pension plan for management, professional, technical and administrative support staff	December 31, 2005	December 31, 2008

Composition of defined benefit plan assets

(in % as at March 31)

	2007	2006
Shares	58%	54%
Bonds	37	38
Others	5	8
Total	100%	100%

Reconciliation of financial position and amounts recorded in the financial statements

	2007		2006	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	81 480		67 462	
Accrued benefit obligation	83 145	4 571	80 273	4 198
Financial position – deficit	(1 665)	(4 571)	(12 811)	(4 198)
Unamortized transitional obligation	31		36	
Cost of benefits for unamortized past services	2 159		2 353	55
Net, unamortized actuarial losses	144	1 370	11 621	1 194
Accrued benefit asset (liability) at end of current year	669	(3 201)	1 199	(2 949)
Classification of amounts recorded in Héma-Québec's financial statements				
Accrued benefit asset	669		1 199	
Accrued benefit liability		3 201		2 949

The accrued benefit obligation exceeds plan assets for all Héma-Québec plans.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

14. DESCRIPTION OF BENEFIT PLANS (cont'd)**Cost recorded for the current year**

	2007		2006	
	Pension plans	Other plans	Pension plans	Other plans
Cost recorded for employee future benefits	<u>4 756</u>	<u>2 296</u>	<u>3 715</u>	<u>2 428</u>

Main assumptions

	2007		2006	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation as at March 31				
Discount rate	5.25%	5.25%	5.25%	5.25%
Rate of salary increase	3.50%	3.50%	4.00%	4.00%
Cost of benefit for year ended March 31				
Discount rate	5.25%	5.25%	5.75%	5.75%
Expected rate of return on plan assets	7.00%		7.00%	
Rate of salary increase	4.00%	4.00%	4.00%	4.00%

Assumed trend rates for health-care cost

	2007	2006
Initial trend rate of health-care cost as at March 31	10.00%	8.50%
Level towards which trend rate is declining	5.00%	5.00%
Year when the rate is expected to stabilize	2017	2013

15. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

As at March 31, 2007, the fair value of the long-term debt of \$37 476 (\$38 550 in 2006) totalled \$38 820 (\$38 362 in 2006), based on the discounted cash flows at the quoted market price for securities with similar maturity dates and interest rates.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

15. FINANCIAL INSTRUMENTS (cont'd)**FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)****Other assets and liabilities**

The fair value of the cash on hand, accounts receivable, subsidy to be received, investment, bank overdraft, accounts payable and accrued liabilities, and advance from the government corresponds to their book value, given their short terms to maturity.

DERIVATIVES**Foreign exchange contract**

Héma-Québec has entered into eight contracts to purchase American currency in the amount of \$48 000 (six contracts of \$8 000) at the rate of 1.1332% for the period of April 2 to September 28, 2007 and in the amount of \$14 400 (two contracts of \$7 200) at the rate of 1.1685% for the period of October 1 to November 30, 2007, to manage certain identifiable risks linked to the purchase of products in foreign currency.

16. COMMITMENTS

Héma-Québec has entered into long-term leases expiring at various dates over the next 27 years for its operating facilities and administrative premises. These leases include, in some cases, a renewal option of up to five years.

The lease expenses for the financial year ended March 31, 2007 stood at \$2 053 (\$2 052 in 2006) for the space. Future minimum payments relating to these long-term leases are as follows:

2008	1 946
2009	1 802
2010	1 542
2011	1 527
2012	1 527
2013 and subsequent	34 099

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, Héma-Québec is related to all government departments and special funds, as well as to all organizations and enterprises controlled directly or indirectly by the Government of Québec or subject to either joint control or to significant common influence by the Government of Québec. Héma-Québec has not concluded any business transactions with these related parties other than in the normal course of its activities and on customary terms. These transactions are not disclosed separately in the financial statements.

18. COMPARATIVE FIGURES

Certain figures for 2006 have been reclassified to conform with the financial statements presentation adopted in 2007.

HÉMA-QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Héma-Québec were drawn up by Management, which is responsible for their preparation and presentation, including important judgments and estimates. This responsibility includes choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in this annual activity report is consistent with that provided in the financial statements.

In order to fulfil its responsibilities, Management maintains a system of internal accounting controls that are designed to provide a reasonable assurance that assets are protected, and that transactions are duly approved and accounted for correctly, within the prescribed timeframe, in order to produce reliable financial statements.

Héma-Québec recognizes that it is responsible for managing its affairs in accordance with the laws and regulations which govern it.

Actuaries from the firm Morneau Sobeco have been appointed as consultants to the Héma-Québec employee pension plans.

The Board of Directors is required to monitor the manner in which Management carries out its financial reporting responsibilities and has approved the financial statements.

The Auditor General of Québec has audited the financial statements of Héma-Québec, in accordance with Canadian generally accepted auditing standards. His report sets out the nature and extent of the audit and includes his statement of opinion. The Auditor General can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of this audit.

Guy Lafrenière
Vice-President, Administration and Finance

Dr. Francine Décary
President and Chief Executive Officer

Montréal, May 23, 2007

HÉMA-QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Héma-Québec as at March 31, 2007, and the statements of operating results, net assets and cash flows for the year then ended. These financial statements are the responsibility of the Management of Héma-Québec. My responsibility is to express an opinion on these financial statements based on my audit.

My audit has been conducted 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 Héma-Québec as at March 31, 2007 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 City, May 23, 2007

HYDRO-QUÉBEC
(R.S.Q., c. H-5)

CONSOLIDATED STATEMENTS OF OPERATIONS
years ended December 31
(in millions of dollars)

	2006	2005
REVENUE	<u>11 161</u>	<u>10 888</u>
EXPENDITURE		
Operations	2 394	2 248
Electricity and fuel purchases	1 315	1 496
Depreciation and amortization (Note 4)	2 007	2 023
Taxes (Note 5)	529	594
Regulatory deferrals (Note 3)	<u>(93)</u>	<u>(11)</u>
	<u>6 152</u>	<u>6 350</u>
OPERATING INCOME	5 009	4 538
Financial expenses (Note 6)	<u>2 212</u>	<u>2 187</u>
Income from continuing operations	2 797	2 351
Income (loss) from discontinued operations (Note 7)	<u>944</u>	<u>(99)</u>
NET INCOME	<u>3 741</u>	<u>2 252</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
years ended December 31
(in millions of dollars)

	2006	2005
BALANCE AT BEGINNING OF YEAR	13 075	11 949
Net income	<u>3 741</u>	<u>2 252</u>
	16 816	14 201
Dividends declared (Note 18)	<u>2 342</u>	<u>1 126</u>
BALANCE AT END OF YEAR	<u>14 474</u>	<u>13 075</u>

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

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS
as at December 31
(in millions of dollars)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	52	16
Short-term investments (Note 16)	3 177	322
Accounts receivable	1 700	1 764
Swaps	1 389	685
Materials, fuel and supplies	365	343
Assets held for sale (Note 7)	11	145
	<u>6 694</u>	<u>3 275</u>
Property, plant and equipment (Note 8)	51 813	50 373
Investments (Note 9)	232	221
Swaps	1 093	1 749
Intangible assets (Note 10)	923	854
Other assets (Note 11)	2 462	1 794
Assets held for sale (Note 7)	<u>31</u>	<u>2 166</u>
	<u>63 248</u>	<u>60 432</u>

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS (cont'd)
as at December 31
(in millions of dollars)

	2006	2005
LIABILITIES		
Current liabilities		
Borrowings (Note 16)	25	20
Accounts payable and accrued liabilities	1 833	1 929
Dividends payable (Note 18)	2 342	1 126
Accrued interest	971	927
Regulatory liability (Note 3)	251	
Current portion of long-term debt (Note 12)	1 352	3 148
Liabilities related to assets held for sale (Note 7)	1	172
	<u>6 775</u>	<u>7 322</u>
Long-term debt (Note 12)	34 139	31 279
Asset retirement obligations (Note 13)	431	282
Other long-term liabilities (Note 14)	2 719	2 581
Long-term liabilities related to assets held for sale (Note 7)	7	1 213
Perpetual debt (Note 15)	<u>337</u>	<u>379</u>
	<u>44 408</u>	<u>43 056</u>
SHAREHOLDER'S EQUITY (Note 18)		
Share capital	4 374	4 374
Retained earnings	14 474	13 075
Translation adjustments	<u>(8)</u>	<u>(73)</u>
	<u>18 840</u>	<u>17 376</u>
	<u><u>63 248</u></u>	<u><u>60 432</u></u>

COMMITMENTS AND CONTINGENCIES (Note 21)

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

Norman E. Hébert Jr.
Chair of the Audit Committee

Michael L. Turcotte
Chairman of the Board

HYDRO-QUÉBEC**CONSOLIDATED STATEMENTS OF CASH FLOWS**

years ended December 31

(in millions of dollars)

	2006	2005
OPERATING ACTIVITIES		
Net income	3 741	2 252
(Income) loss from discontinued operations (Note 7)	(944)	99
Income from continuing operations	2 797	2 351
Adjustments		
Depreciation and amortization (Note 4)	2 007	2 023
Amortization of debt premiums, discounts and issue expenses (Note 6)	1	28
Exchange gain	(470)	(99)
Difference between contributions paid and pension cost	(95)	(155)
Regulatory deferrals	(93)	(11)
Other	(54)	(15)
Change in non-cash working capital items (Note 19)	(87)	279
	4 006	4 401
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets	(3 348)	(3 282)
Long-term investments	12	8
Disposal of investments, net of divested cash and cash equivalents (Note 7)	2 022	
Energy Efficiency Plan (Note 3)	(149)	(91)
Net change in short-term investments	(2 807)	(251)
Other	(6)	(34)
	(4 276)	(3 650)
FINANCING ACTIVITIES		
Issuance of long-term debt	3 781	3 855
Repayment of long-term debt at maturity and sinking fund redemption	(1 862)	(1 805)
Redemption of long-term debt	(789)	(757)
Inflows resulting from credit risk management	1 140	340
Outflows resulting from credit risk management	(975)	(1 120)
Net change in short-term borrowings	5	(24)
Dividends paid	(1 126)	(1 350)
Other	9	5
	183	(856)
CHANGE IN FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		(1)
Cash flows from continuing operations	(87)	(106)
Cash flows from discontinued operations (Note 7)	52	101
NET CHANGE IN CASH AND CASH EQUIVALENTS	(35)	(5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	92	97
CASH AND CASH EQUIVALENTS AT END OF YEAR	57	92

HYDRO-QUÉBEC

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont'd)
years ended December 31
(in millions of dollars)

	<u>2006</u>	<u>2005</u>
CASH AND CASH EQUIVALENTS		
Continuing operations	52	16
Discontinued operations	<u>5</u>	<u>76</u>
	<u>57</u>	<u>92</u>

SUPPLEMENTARY CASH FLOW INFORMATION (Note 19)

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

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

years ended December 31, 2006 and 2005

(in millions of dollars)

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 a base volume of up to 165 TWh a year of heritage pool electricity for the Québec market, as set out in the Act respecting the Régie de l’énergie.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l’énergie (the “Régie”). These decisions affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which the Corporation considers it is likely to recover or settle subsequently through the rate-setting process.

Regulation

The Act respecting the Régie de l’énergie grants the Régie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by the Corporation. The Corporation’s electricity transmission and distribution activities in Québec are therefore regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. Moreover, the Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a reasonable return on the rate base.

The Régie and the Corporation both belong to the Québec government reporting entity. However, the Régie is an independent, quasi-judicial economic regulatory agency accountable to the National Assembly of Québec through the Minister of Natural Resources and Wildlife.

Transmission

The Corporation’s power transmission rates were determined in decision D-2006-66, in which the Régie authorized a modification of power transmission rates effective January 1, 2005. The impact of this decision is essentially a \$170-million increase in the annual cost of transmission service for the native load, which is not integrated into the Corporation’s electricity rates. The transmission rates include a 8.34% return on the rate base, as authorized by the Régie following decision D-2005-63. This return assumes a capital structure with 30% shareholder’s equity.

Distribution

The Corporation’s electricity rates were determined in decisions D-2005-48 and D-2006-46, in which the Régie granted across-the-board rate increases of 1.2% and 5.33%, effective April 1, 2005, and April 1, 2006, respectively. The return on the rate base authorized by the Régie and set at 8.4% in 2005 was 7.75% in 2006, assuming a capital structure with 35% shareholder’s equity.

Scope of consolidation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and its joint ventures as well as those of variable interest entities (VIEs) where Hydro-Québec is the primary beneficiary (referred to collectively as Hydro-Québec). Interests in joint ventures are accounted for using the proportionate consolidation method. Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis.

Use of estimates

The preparation of consolidated financial statements in accordance with GAAP requires that Management make estimates and assumptions that affect the amounts recognized as assets and liabilities, the disclosures required regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts recognized as revenue and expenditure for the years in question. The estimates relate to unbilled electricity deliveries, the useful life of property, plant and equipment, asset retirement and employee future benefit obligations, among other things. Actual results could differ from those estimates.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Revenue**

Revenue is recognized when electricity is delivered or services are rendered. Revenue from sales of electricity in Québec is recorded on the basis of cyclical billings and also includes revenue accrued in respect of unbilled electricity deliveries.

Income taxes

In Canada, the Corporation and most of its holdings are exempt from paying income taxes since they are government-owned. Entities operating in foreign countries pay income taxes according to the tax rules in effect in the country where they derive revenue and the application of a tax treaty between Canada and the country concerned, if any such treaty exists.

The taxable entities use the liability method to account for income taxes.

Foreign currency translation*Self-sustaining foreign operations*

The financial statements of foreign operations that are self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign currency as the measuring unit. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and revenue and expenditure are translated at the average exchange rates in effect during the period. Exchange gains or losses resulting from the translation of the financial statements of these foreign operations are presented under Translation adjustments in Shareholder's equity on the balance sheet.

Integrated foreign operations and foreign currency transactions

In the case of foreign operations that are integrated in terms of financial and operational management, as well as foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary items are translated at the historical rate. Revenue and expenditure resulting from foreign currency transactions are translated into Canadian dollars at the average exchange rates in effect during the period.

The exchange gains or losses resulting from the translation of monetary items are included in the statement of operations, unless they relate to hedging items for future sales in U.S. dollars, in which case they are deferred to the year in which such sales are made in accordance with Accounting Guideline AcG-13 of the *Canadian Institute of Chartered Accountants (CICA) Handbook*, Hedging Relationships.

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of 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 more than three months are presented under Short-term investments.

Short-term investments are recorded at the lower of unamortized cost and fair value.

Sinking funds

Sinking funds are made up of Hydro-Québec debentures and are deducted from long-term debt.

Sinking fund securities are carried at unamortized cost. The difference between the cost and the par value at maturity is amortized over the remaining term of the security.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Materials, fuel and supplies**

Inventories of materials, fuel and supplies are valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Property, plant and equipment

Property, plant and equipment are carried at cost, which comprises materials, labor, other costs directly related to construction activities, and financial expenses capitalized during construction. Property, plant and equipment also include the discounted value of asset retirement obligations. Contributions from third parties are applied against the cost of the related property, plant and equipment.

Financial expenses capitalized to property, plant and equipment under construction are determined using the average cost of the Corporation's long-term debt at the end of the previous year. When the property, plant and equipment under construction relate to regulated transmission and distribution activities, such financial expenses 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 operations.

Property, plant and equipment are depreciated over their useful life, primarily using the sinking fund method, at a rate of 3%. Under the Hydro-Québec Act, the depreciation period is a maximum of 50 years. The depreciation periods for the principal categories of property, plant and equipment are as follows:

Hydraulic generation	40 to 50 years
Thermal generation, including nuclear	15 to 50 years
Transmission substations and lines	30 to 50 years
Distribution substations and lines	25 to 40 years

When unregulated property, plant and equipment are retired, the cost of such assets and the cost of their dismantlement, net of accumulated depreciation and salvage value, are charged to operations for the year. When regulated property, plant and equipment are retired, these costs are charged to a separate account and amortized over a maximum period of 10 years, using the sinking fund method, at a rate of 3%.

Maintenance and repair costs are charged to operations as incurred.

Long-term investments

Hydro-Québec holds an interest in a venture capital company whose mission is to make strategic investments. The investments held by this company, which would normally be consolidated or accounted for on an equity basis or at cost, are accounted for at fair value. The fair value is determined according to the quoted market price at the balance sheet date in the case of listed shares, and according to valuation methods recognized by the financial markets in the case of unlisted shares. Other long-term investments are recorded at cost, unless there has been a loss in value that is other than a temporary decline, in which case the investments are written down to fair value.

Intangible assets

Intangible assets are recorded at cost. This cost includes expenses directly associated with activities for developing or obtaining computer software for internal use. Financial expenses are capitalized over the development period.

Intangible assets with an indefinite useful life are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment in value. The excess of the carrying amount over the fair value is recorded in the statement of operations for the period in which the impairment is determined.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Intangible assets (cont'd)**

Intangible assets with a finite useful life are amortized over their useful life. The amortization methods and periods used for these assets are as follows:

Software and licences	straight-line and sinking fund at 3%	3 to 10 years
Rights	sinking fund at 3%	40 to 50 years
Environmental studies	sinking fund at 3%	5 years
Patents	sinking fund at 3%	20 years

Impairment of long-lived assets

Hydro-Québec reviews the carrying amount of its property, plant and equipment and its amortizable intangible assets whenever events or changes in circumstances indicate that the expected undiscounted net cash flows could be lower than the carrying amount of the property and assets. An impairment loss corresponding to the amount by which the carrying amount exceeds fair value is recognized, if applicable.

Employee future benefits

The Corporation offers all of its employees a contributory defined-benefit pension plan based on final pay, as well as other post-retirement and post-employment benefits.

The cost of pension benefits and other post-retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service. It is based on Management's best assumptions of expected plan asset performance, salary escalation, the increase in health care costs, retirement ages of employees and other actuarial factors.

In order to establish its employee future benefit obligations, 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 active employees' average remaining years of service, which totaled 12 years as at January 1, 2006 (13 years as at January 1, 2005), using the straight-line method.
- Amortization of actuarial gains or losses is recognized in the statement of operations for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligations or 10% of the market-related value of the plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.
- The expected return on pension plan assets is based on a market-related value determined by using a five-year moving average for equity securities and by valuing other asset classes at fair value.

Asset retirement obligations

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 financial years, any change due to the passage of time is charged to operating expenses for the current year (accretion expense) and the corresponding amount is added to the carrying amount of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability under Asset retirement obligations, and the corresponding retirement cost adjustment is accounted for as part of the carrying amount of the related asset.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Asset retirement obligations (cont'd)**

The cash flows required to settle asset retirement obligations are estimated on the basis of studies that use various assumptions concerning the methods and timing to be adopted for the retirement. The Corporation periodically reviews the valuation of these cash flows in light of the underlying assumptions and estimates, possible technological advances, and changes in the standards and regulations governing the decommissioning of nuclear generating stations.

Debt premiums, discounts and issue expenses

Debt premiums, less discounts and issue expenses, are deferred and amortized over the term of the borrowings and presented under Other long-term liabilities.

Derivative instruments

As part of its integrated risk management, Hydro-Québec uses various derivative instruments to manage foreign exchange, interest rate and market risk, including exposure to fluctuating energy and commodity prices. In the case of hedging operations, the Corporation formally documents all relationships between hedging instruments and hedged items. Such documentation involves associating all derivatives with forecasted and probable transactions or with specific assets and liabilities on the balance sheet. The Corporation also formally measures the effectiveness of hedging relationships at their inception and then quarterly thereafter.

Derivative instruments designated as hedges in effective hedging relationships are accounted for using hedge accounting. The different types of hedging relationships in which the Corporation engages are as follows:

Management of risk associated with long-term debt and sales in U.S. dollars

- Foreign exchange risk — 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. Debit balances are reported as Swaps, while credit balances are presented under Long-term debt. Gains or losses on currency swaps related to long-term debt are included in the statement of operations under Financial expenses, while gains or losses on currency swaps related to U.S.-dollar sales are deferred to maturity and recognized as Revenue in the statement of operations in the year the sales are made.
- Interest rate risk — Interest rate swaps used to modify long-term exposure to interest rate risk are accounted for on an accrual basis and presented in the statement of operations under Financial expenses. The corresponding amounts payable or receivable are recorded as adjustments to accrued interest.

Management of short-term financial risk

- Foreign exchange risk — To manage short-term foreign exchange risk, the Corporation transacts options and forwards, which are recorded at cost. Gains or losses realized on these instruments are deferred and recognized in the statement of operations in the same period and component as the hedged item.
- Interest rate risk — The Corporation uses options, interest rate swaps and forward rate agreements to manage short-term interest rate risk. The instruments are accounted for at cost, and the related realized gains or losses are deferred and recognized in the statement of operations in the same period and component as the hedged item.
- Market risk — To manage market risk exposure, the Corporation contracts mainly options, commodity swaps and commodity futures. Risk management instruments for fluctuating energy or aluminium prices are accounted for at cost, and the related gains or losses are deferred and recognized in the statement of operations in the same period and component as the hedged item.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Derivative instruments (cont'd)***Management of short-term financial risk (cont'd)*

If a derivative instrument no longer satisfies hedging conditions or is sold or liquidated, or if Hydro-Québec terminates its designation as a hedging relationship, hedge accounting ceases to be applied on a prospective basis. The fair value of the derivative instrument is then recorded and deferred to be included in the statements of operations in the periods in which the hedged item affects operations. If the hedged item ceases to exist, the gains or losses previously deferred are immediately recognized in the statement of operations.

For derivative instruments to which hedge accounting cannot be applied, realized and unrealized changes in fair value are recognized in the statement of operations in the periods in which they occur.

The fair value of derivative instruments is based on the spot rates or on the forward rates or prices in effect at market closing at the balance sheet date. In the absence of this information for a given instrument, Management uses the forward rate or price for an equivalent instrument. In the case of options, valuation models recognized by financial markets are used to estimate the fair value.

Comparative information

Certain figures of the previous year have been reclassified in order to conform to the presentation adopted in the current year.

2. CHANGES IN ACCOUNTING POLICIES**Recent changes****2006***Non-monetary transactions*

On January 1, 2006, Hydro-Québec adopted the recommendations of *CICA Handbook* Section 3831, Non-monetary Transactions, which supersedes Section 3830, also entitled Non-monetary Transactions. This standard requires that a non-monetary asset or liability exchanged or transferred in a non-monetary transaction be measured at its fair value where the criterion of “commercial substance” is met. The adoption of these recommendations had no impact on the consolidated financial statements.

Conditional asset retirement obligations

On April 1, 2006, Hydro-Québec adopted the recommendations in the CICA’s Emerging Issues Committee Abstract EIC-159, Conditional Asset Retirement Obligations. This abstract states how to account for conditional asset retirement obligations when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. A liability for the fair value of an asset retirement obligation must be recognized in the period in which it is incurred when a reasonable estimate of fair value can be made. The adoption of these recommendations had no impact on the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

2. CHANGES IN ACCOUNTING POLICIES (cont'd)**Recent changes (cont'd)****2005***Investment companies*

On January 1, 2005, Hydro-Québec prospectively adopted the recommendations in CICA Accounting Guideline AcG-18, Investment Companies. Under AcG-18, investment companies are required to account for their investments at fair value in certain cases where these investments would normally have been consolidated or accounted for on an equity basis or at cost. Criteria are provided to determine whether a company should be classified as an investment company. Companies that do not meet the criteria are required to consolidate or account for their investments using the equity method. The guideline also provides instructions for circumstances where fair value must be used in the consolidated financial statements of the parent company or the entity exercising significant influence over the investment company. Since the adoption of this guideline, the venture capital investments held by a subsidiary have been accounted for at fair value, whereas previously, they had been accounted for at cost. The adoption of these recommendations had no significant impact on the consolidated financial statements.

Consolidation of variable interest entities

On January 1, 2005, Hydro-Québec retroactively applied the recommendations in CICA Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, without restating the figures for the preceding year. This guideline provides the consolidation principles applicable to certain entities (VIEs) that are subject to control on a basis other than ownership of voting interests. It prescribes consolidation of an entity when the reporting enterprise is the primary beneficiary. The primary beneficiary is the enterprise with variable interests that will absorb a majority of the VIE's expected losses, receive a majority of its expected residual returns, or both. The guideline also requires disclosure of certain information when the reporting enterprise has a significant variable interest in a VIE that it has not consolidated. The adoption of these recommendations had no significant impact on the consolidated financial statements.

Determining whether an arrangement contains a lease

On January 1, 2005, Hydro-Québec adopted the recommendations in the CICA's Emerging Issues Committee Abstract EIC-150, Determining Whether an Arrangement Contains a Lease. The abstract provides guidance for determining whether an arrangement comprising a transaction or a series of related transactions that does not take the legal form of a lease but conveys a right to use a tangible asset in return for a payment or series of payments is within the scope of *CICA Handbook* Section 3065, Leases. Since January 1, 2005, the provisions of the abstract have applied to arrangements agreed to, committed to, modified or acquired in business combinations. The adoption of these recommendations had no significant impact on the consolidated financial statements.

Disclosures by entities subject to rate regulation

On December 31, 2005, Hydro-Québec adopted the recommendations in CICA Accounting Guideline AcG-19, Disclosures by Entities Subject to Rate Regulation. AcG-19 recommends that the existence and nature of all forms of rate regulation, as well as their effects on the consolidated financial statements, be disclosed in the notes to the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
 (in millions of dollars)

2. CHANGES IN ACCOUNTING POLICIES (cont'd)**Future changes***Financial instruments, hedges and comprehensive income*

In 2005, the CICA released *CICA Handbook* sections 3855, 3865 and 1530, respectively entitled Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.

Section 3855 specifies when a financial instrument must be accounted for on the balance sheet and at what amount: in some cases at fair value, while in other cases at a value based on cost. It also specifies how gains and losses on financial instruments should be presented.

Section 3865 replaces the guidance for hedging relationships that was previously included in AcG-13, in particular the guidance for the designation and documentation of hedging relationships. These new recommendations specify how hedge accounting is applied and the required disclosures to be made by an entity applying hedge accounting.

Section 1530 establishes standards for the reporting and display of comprehensive income. Comprehensive income includes, in addition to net income, all changes in equity during a period attributable to transactions and other events from non-owner sources. Comprehensive income and its components must be presented in a financial statement with the same prominence as the other financial statements.

These sections will apply to the Corporation's interim and annual financial statements relating to financial years beginning on January 1, 2007, and beyond. The Corporation is currently examining the impact that these new standards will have on its consolidated financial statements.

Financial instruments – disclosure and presentation

In 2005, the CICA released *CICA Handbook* Section 3861, Financial Instruments – Disclosure and Presentation, which supersedes Section 3860, also entitled Financial Instruments – Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information to be disclosed about them. It will apply to the Corporation's interim and annual financial statements relating to the 2007 financial year. In 2006, the CICA released *CICA Handbook* sections 3862 and 3863, respectively entitled Financial Instruments – Disclosures and Financial Instruments – Presentation, which supersede Section 3861. Section 3862 amends the disclosure requirements under Section 3861, whereas Section 3863 maintains the presentation requirements in Section 3861. These sections will apply to the Corporation's interim and annual financial statements relating to financial years beginning on January 1, 2008, and beyond. The CICA allows these sections to be applied to the Corporation's interim and annual financial statements relating to the 2007 financial year, in place of Section 3861.

Equity

In 2005, the CICA released *CICA Handbook* Section 3251, Equity, which supersedes Section 3250, Surplus. Section 3251 establishes standards for the presentation of equity as a result of the new requirements in Section 1530, Comprehensive Income. It will apply to the Corporation's interim and annual financial statements relating to financial years beginning on January 1, 2007, and beyond. In 2006, the CICA released *CICA Handbook* Section 1535, Capital Disclosures, requiring disclosure of how capital is managed by Management. This Section will apply to the Corporation's interim and annual financial statements relating to financial years beginning on January 1, 2008, and beyond.

Accounting changes

In 2006, the CICA released *CICA Handbook* Section 1506, Accounting Changes. This Section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. It will apply to the Corporation's interim and annual financial statements relating to financial years beginning on January 1, 2007, and beyond. The adoption of the recommendations in this new Section is not expected to have any significant impact on the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
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3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following information describes the impact on the consolidated financial statements of accounting methods and practices adopted by the Corporation in accordance with decisions handed down by the Régie with respect to regulated activities.

Regulatory assets and liabilities*Variances in annual cost of transmission service for the native load*

Variances in the annual cost of transmission service for the native load resulting from modification of power transmission rates authorized by the Régie, where electricity rates have already been set, are charged to a separate account. The financial expenses for variances charged to this account are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice, which relates to the Corporation's power distribution activities, was authorized by the Régie in decisions D-2003-93 and D-2006-34.

In decision D-2006-66, the Régie authorized a modification of power transmission rates effective January 1, 2005. The impact of this decision is essentially a \$170-million increase in the annual cost of transmission service for the native load, which is not integrated into current electricity rates. In application R-3610-2006 filed with the Régie to set the rates applicable as of April 1, 2007, the Corporation in its activities as power distributor proposed that its next application include a mechanism for amortizing the 2005 and 2006 increases, which amount to \$340 million, plus capitalized financial expenses of \$15 million as at December 31, 2006. Were these activities not regulated, no reduction in expenditure would have been recognized in the consolidated financial statements, and net income for 2006 would have been \$355 million lower.

Net costs related to retirement of property, plant and equipment and intangible assets

When property, plant and equipment or intangible assets are retired, the cost of such assets and of their dismantlement, net of accumulated amortization and salvage value, are charged to a separate account and amortized over a maximum period of 10 years, using the sinking fund method at a rate of 3%. The Régie authorized this accounting practice in decisions D-2002-95 and D-2003-93, which relate to the Corporation's power transmission and distribution activities, respectively. Were these activities not regulated, the related costs would be charged to operations for the year, and net income for 2006 would have been \$17 million higher (\$19 million lower in 2005).

Costs related to the Energy Efficiency Plan

The costs related to implementation of the Plan, such as specific energy conservation programs, are charged to a separate account and amortized over 10 years on a straight-line basis, except for the costs incurred prior to January 1, 2006, which are amortized over five years. This period begins in the year after the costs were recorded. For costs charged to this account, the financial expenses are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice relates to the Corporation's power distribution activities and was authorized by the Régie in decisions D-2002-25, D-2002-288 and D-2006-56. Were these activities not regulated, the costs would normally be charged to operations in the year in which they are incurred, and net income for 2006 would have been \$121 million lower (\$80 million in 2005).

Costs incurred until the rescission of dual-energy Rate BT

The costs incurred until the rescission of dual-energy Rate BT were charged to a separate account and have been amortized on a straight-line basis over five years since the rescission date of April 1, 2006. These costs mainly include the deficit resulting from the variance between the supply cost recognized by the Régie and the prevailing price of energy, multiplied by the quantity of electricity delivered to customers at Rate BT between January 1, 2004, and March 31, 2006. For costs charged to this account, the financial expenses were capitalized at the rate of return authorized by the Régie on the rate base until March 31, 2006. This accounting practice was authorized by the Régie in decisions D-2004-47, D-2004-170 and D-2006-34, which relate to the Corporation's power distribution activities. Were these activities not regulated, the costs would be charged to operations in the year in which they are incurred, and net income for 2006 would have been \$49 million lower (\$55 million in 2005).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Regulatory assets and liabilities (cont'd)

Costs related to a major discontinued project

A power transmission system project was discontinued in 2005. The costs deemed to be irrecoverable are deferred and amortized over three years on a straight-line basis. The Régie authorized this accounting practice in decision D-2002-95, which relates to the Corporation's power transmission activities. Were these activities not regulated, the costs would have been charged to operations for 2005, and net income for 2006 would have been \$10 million higher (\$20 million lower in 2005).

Cost variance related to electricity purchases in excess of the heritage pool

Since January 1, 2005, volume and price variances between the actual costs of electricity purchases in excess of the heritage pool and the costs forecasted in the rate cases and recognized by the Régie for rate-setting purposes have been recorded in a separate account. In 2006, a positive variance between the forecasted costs and actual costs resulted in the recognition of a regulatory liability, whereas in 2005, the opposite situation justified recognition of a regulatory asset. For the 2005 variances charged to this account, financial expenses were capitalized at the rate of return authorized by the Régie on the rate base. This accounting practice was authorized by the Régie in decisions D-2005-34, D-2005-132 and D-2006-34, which relate to the Corporation's power distribution activities. Were these activities not regulated, the actual costs would be charged to operations in the year in which they are incurred, and net income for 2006 would have been \$245 million higher (\$13 million lower in 2005).

Costs related to the de-icing system at Lévis substation

Certain costs related to the Lévis substation de-icing system, a project designed in the wake of the 1998 ice storm to secure the transmission lines supplying the greater Québec City area, have been charged to a separate account. Once the de-icing system is commissioned, these costs will be depreciated according to the sinking fund method at 3%, over a period corresponding to the average remaining useful life of the assets that will be enhanced by this project. For costs charged to this account, the financial expenses are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. The Régie authorized this accounting practice in decision D-2004-175, which relates to the Corporation's power transmission activities. Were these activities not regulated, the costs would be charged to operations in the year in which they are incurred, and net income for 2006 would have been \$11 million lower (\$1 million in 2005).

Regulatory assets (liabilities)	Expected years of amortization	2006	2005
Variances in annual cost of transmission service for native load ^a	Conditions to be determined by the Régie	355	
Net costs related to retirement of property, plant and equipment and intangible assets	2007-2016	241	258
Costs related to Energy Efficiency Plan	2007-2016	252	131
Costs incurred until rescission of dual-energy Rate BT	2007-2011	125	76
Costs related to a major discontinued project	2007	10	20
Cost variance related to electricity purchases in excess of 2005 heritage pool ^a	2007	30	13
Costs related to de-icing system at Lévis substation	2007-2047	12	1
		<u>1 025</u>	<u>499</u>
Cost variance related to electricity purchases in excess of 2006 heritage pool ^a	Conditions to be determined by the Régie	(251)	
		<u>(11)</u>	
		<u>(262)</u>	
		<u>763</u>	<u>499</u>

a Corresponds to Regulatory deferrals of \$93 million presented in the Consolidated Statements of Operations, net of financial expenses of \$17 million (\$11 million and \$2 million, respectively, in 2005).

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2006 and 2005

(in millions of dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**Regulatory assets and liabilities (cont'd)***Risks and uncertainties*

The risks and uncertainties related to the above regulatory assets and liabilities are subject to periodic monitoring and assessment. Once the Corporation considers that it is no longer likely that the net carrying amount of a regulatory asset or liability will be taken into account in setting future rates, this amount is recognized in the statement of operations in the year in which the conclusion is reached.

Other regulatory practices

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the Québec government for the 1998 ice storm was applied against the cost of new property, plant and equipment constructed; it is amortized over the remaining life of the retired assets, with the exception of the portion equivalent to the unamortized cost of these assets, which is amortized over 10 years. The sinking fund method, at a rate of 3%, is used in both cases. Were these activities not regulated, the compensation would be amortized over the useful life of the new property, plant and equipment constructed.

In decisions D-2002-95 and D-2004-47, the Régie prescribed capitalizing financial expenses to property, plant and equipment under construction and intangible assets under development according to the authorized rates of return on the rate bases. These rates, which are set using methods approved by the Régie, take into account a component associated with the cost of the debt and a component associated with the return on shareholder's equity. Were these activities not regulated, financial expenses would be capitalized using the average cost of the Corporation's long-term debt.

Under Régie decisions D-2002-95 and D-2003-93, the cost of dismantling assets that were retired and replaced, net of the salvage value, is added to the cost of the new assets constructed. Were these activities not regulated, these costs would be charged to operations.

Under Régie decisions D-2006-76 and D-2006-76R, contributions received for relocation or modification projects relating to certain transmission grid assets are charged to a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the sinking fund method, at a rate of 3%. Were these activities not regulated, the contributions would be amortized over the useful life of each fixed asset concerned.

4. DEPRECIATION AND AMORTIZATION

	2006	2005
Property, plant and equipment	1 745	1 712
Intangible assets	114	109
Regulatory assets	111	51
Deferred charges	13	16
Write-off of projects	24	135
	<u>2 007</u>	<u>2 023</u>

5. TAXES

	2006	2005
Capital tax	261	330
Tax on public services	230	229
Municipal, school and other taxes	38	35
	<u>529</u>	<u>594</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

6. FINANCIAL EXPENSES

	2006	2005
Interest		
Interest on debt securities	2 465	2 277
Amortization of debt premiums, discounts and issue expenses	1	28
	2 466	2 305
Exchange gain	(21)	(1)
Loan guarantee fees paid to the shareholder	158	155
	137	154
Less		
Capitalized financial expenses	312	249
Net investment income	79	23
	391	272
	2 212	2 187

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE**2006**

In 2005, Hydro-Québec adopted a plan to sell off some of its foreign holdings. The related assets and liabilities were therefore classified as being held for sale. Further to the adoption of this plan, the following transactions took place in 2006:

- On January 18, 2006, Hydro-Québec concluded the sale of its interest in Hidroeléctrica Río Lajas S.A., through its wholly owned subsidiary Hydro-Québec International (HQI), for a cash consideration of \$5 million, giving rise to a loss of \$0.3 million.
- On February 27, 2006, Hydro-Québec concluded the sale of its interest in Cross-Sound Cable Company, LLC, for a cash consideration of \$182 million, giving rise to a \$29-million gain. The transaction included the sale of units held and the repayment of the loan granted by Hydro-Québec to Cross-Sound Cable Company, LLC.
- On March 29, 2006, Hydro-Québec concluded the sale of its interest in MurrayLink HQI Australia Pty Ltd, through HQI, for a cash consideration of \$60 million. This transaction gave rise to a \$2-million loss.
- On June 30, 2006, Hydro-Québec sold its interest in HQI Transelec Chile S.A. (Transelec), through HQI, for a cash consideration of \$1.8 billion. This transaction gave rise to a gain of \$813 million, net of \$225 million in related income taxes. The sales contract further provides for price adjustments according to the market value of the regulated trunk transmission asset base, which is currently being evaluated by a consortium of independent experts, and to the retroactive effect of this valuation on Transelec's revenue for the period from March 13, 2004, through June 30, 2006. In Management's opinion, these adjustments should result in an additional gain which will be recognized when the ministerial order setting the rates is made known.
- On August 1, 2006, Hydro-Québec concluded the sale of its interest in HQI Latin America Ltd. (Fortuna generating station in Panama), through HQI, for a cash consideration of \$113 million. This transaction gave rise to a gain of \$38 million.
- On December 12, 2006, Hydro-Québec concluded the sale of its interest in Consorcio TransMantaro S.A., through HQI, for a cash consideration of \$84 million. This transaction gave rise to a gain of \$39 million.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)**2006 (cont'd)**

- On December 5, 2006, Hydro-Québec signed an agreement to sell its interest in HQI Australia Pty Ltd, held through HQI, for a cash consideration of AU\$57 million. This transaction should result in a gain that will be recognized on closing, once the necessary approvals have been obtained from the Australian government. As at December 31, 2006, the related assets and liabilities were presented as being held for sale.

For purposes of segmented information, the results of foreign holdings are classified under Corporate and Other Activities.

2005

On July 15, 2005, Hydro-Québec concluded the sale of the principal assets held by its subsidiary HydroSolution, Limited Partnership, for a cash consideration of \$92 million, resulting in a gain of \$48 million. HydroSolution is part of the Distribution segment for purposes of segmented information.

The following table presents operating results and cash flows from the interests presented as discontinued operations:

	2006	2005
Operations		
Revenue	256	347
Gain (loss) before net gain on disposal	27	(147)
Gain on disposal, net of \$252 million in related income taxes	917	48
Income (loss) from discontinued operations	944	(99)
Cash flows		
Operating activities	11	83
Investing activities	64	45
Financing activities	(18)	(33)
Change in foreign exchange on cash and cash equivalents	(5)	6
Cash flows from discontinued operations	52	101

The assets and liabilities sold, as at the disposal date, were as follows:

	2006	2005
Cash and cash equivalents	135	
Other current assets	69	
Long-term assets	2 176	42
Current liabilities	187	
Long-term liabilities	1 291	
	902	42

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	2006			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	31 132	7 708	2 752	26 176
Thermal, including nuclear	2 677	1 755	123	1 045
Other	759	322	37	474
	<u>34 568</u>	<u>9 785</u>	<u>2 912</u>	<u>27 695</u>
Transmission				
Substations and lines	20 186	6 097	594	14 683
Other	753	515	30	268
	<u>20 939</u>	<u>6 612</u>	<u>624</u>	<u>14 951</u>
Distribution				
Substations and lines	10 905	3 940	225	7 190
Other	1 803	1 013	101	891
	<u>12 708</u>	<u>4 953</u>	<u>326</u>	<u>8 081</u>
Construction	<u>47</u>	<u>31</u>	<u>1</u>	<u>17</u>
Corporate and Other Activities	<u>2 111</u>	<u>1 159</u>	<u>117</u>	<u>1 069</u>
	<u>70 373</u>	<u>22 540</u>	<u>3 980</u>	<u>51 813</u>
	2005			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	28 727	7 209	3 528	25 046
Thermal, including nuclear	2 538	1 614	95	1 019
Other	781	315	26	492
	<u>32 046</u>	<u>9 138</u>	<u>3 649</u>	<u>26 557</u>
Transmission				
Substations and lines	19 511	5 689	527	14 349
Other	752	525	17	244
	<u>20 263</u>	<u>6 214</u>	<u>544</u>	<u>14 593</u>
Distribution				
Substations and lines	10 463	3 620	219	7 062
Other	1 923	1 118	70	875
	<u>12 386</u>	<u>4 738</u>	<u>289</u>	<u>7 937</u>
Construction	<u>51</u>	<u>34</u>	<u>2</u>	<u>19</u>
Corporate and Other Activities	<u>2 551</u>	<u>1 373</u>	<u>89</u>	<u>1 267</u>
	<u>67 297</u>	<u>21 497</u>	<u>4 573</u>	<u>50 373</u>

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2006 and 2005

(in millions of dollars)

8. PROPERTY, PLANT AND EQUIPMENT (cont'd)

As at December 31, 2006, the Corporation had cumulative costs related to suspended draft-design studies totaling \$15 million (\$37 million as at December 31, 2005). These costs, for which financial expenses are not capitalized, are presented as property, plant and equipment under construction. As the Corporation anticipates carrying out some of these projects in the longer term, it periodically reviews the cumulative costs of these 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. The projects are assessed in terms of eventual profitability based on the expected 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.

9. INVESTMENTS

	2006	2005
At equity		
Churchill Falls (Labrador) Corporation Limited (Note 21)	69	60
CITEQ inc.	(5)	(5)
	64	55
At cost		
Churchill Falls (Labrador) Corporation Limited		
Bonds ^a (Note 21)	52	54
Other	62	63
	114	117
At fair value		
Venture capital ^b	54	49
	54	49
	232	221

a These 7.5% bonds, with a par value of \$58 million in 2006 (\$59 million in 2005) and due in 2010, are secured by a general mortgage.

b Both the gross and net unrealized gains on investments held by the venture capital company amounted to \$13 million as at December 31, 2006 (losses of \$26 million as at December 31, 2005). Net losses of \$2 million were realized in 2006 (gains of \$6 million in 2005).

10. INTANGIBLE ASSETS

			2006
	Cost	Accumulated amortization	Net carrying amount
Subject to amortization			
Software and licences ^a	1 147	652	495
Rights	113	40	73
Environmental studies	134	118	16
Patents	8	2	6
	1 402	812	590
Not subject to amortization			
Servitudes			333
			923

a The net carrying amount includes \$311 million in assets under development.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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10. INTANGIBLE ASSETS (cont'd)

			2005
	Cost	Accumulated amortization	Net carrying amount
Subject to amortization			
Software and licences ^a	980	546	434
Rights	110	37	73
Environmental studies	126	109	17
Patents	44	38	6
	1 260	730	530
Not subject to amortization			
Servitudes			324
			854

a The net carrying amount includes \$215 million in assets under development.

11. OTHER ASSETS

	2006	2005
Accrued benefit assets (Note 20)	1 115	1 020
Regulatory assets (Note 3)	1 025	499
Deferred charges	153	95
Government reimbursement for the 1998 ice storm ^a	123	138
Nuclear fuel waste management trust fund ^b	36	32
Goodwill ^c	10	10
	2 462	1 794

a Payable in quarterly installments of \$6 million until January 15, 2014, and a final installment of \$1 million on April 15, 2014. These installments include interest calculated at an annual rate of 7.2%.

b In order to meet its financial obligations, the Corporation deposited an initial amount of \$20 million in a trust fund in 2002. It is required to deposit an additional \$4 million per year in the same trust fund until the Government of Canada decides on the proposal to be adopted, based on the recommendations made by the waste management organization in November 2005. The Corporation has been making the required payments since 2002. The sums are invested in short-term marketable securities, and the interest accrued is kept in the trust fund.

c For purposes of segmented information, goodwill is classified under the Generation segment.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

12. 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 take the sinking funds into account.

							2006	2005
Maturity	Corporation's debt						Total	Total
	Canadian dollars	U.S. dollars	Other currencies	Sinking Funds	Total	Sub-sidiaries		
2006								3 148
2007	600	734	22	(6)	1 350	2	1 352	1 669
2008	87	182	1 248		1 517	3	1 520	1 289
2009	1 889	35	6	(349)	1 581	4	1 585	1 869
2010	705	29		(352)	382	4	386	684
2011	1 880	1 083	91		3 054	4	3 058	
1 to 5 years	5 161	2 063	1 367	(707)	7 884	17	7 901	8 659
6 to 10 years	1 150	1 949	612		3 711	20	3 731	6 063
11 to 15 years	3 045	1 149	11		4 205		4 205	2 396
16 to 20 years	1 958	3 305			5 263		5 263	5 549
21 to 25 years	1 129	2 660			3 789		3 789	3 291
26 to 30 years	4 657	50			4 707		4 707	5 703
31 to 35 years	3 790				3 790		3 790	1 765
36 to 40 years	1 028				1 028		1 028	12
41 to 45 years	98				98		98	70
46 to 50 years	56				56		56	28
51 to 55 years	507				507		507	479
56 to 60 years	416				416		416	412
Less	22 995 ^a	11 176	1 990	(707)	35 454 ^b	37	35 491	34 427
Current portion	600	734	22	(6)	1 350	2	1 352	3 148
	22 395	10 442	1 968	(701)	34 104	35	34 139	31 279

a Includes \$192 million and \$419 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 \$1 261 million, will have a total par value of \$1 333 million at maturity.

b Includes \$33 436 million in bonds guaranteed by the Québec government as at December 31, 2006 (\$32 014 million as at December 31, 2005).

Breakdown of debt by currency at time of issuance and impact of swaps and sinking funds

The following table summarizes long-term debt, including the current portion, in Canadian dollars and foreign currencies. Also shown are the effects of currency swaps and sinking funds allocated to repay debt.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

12. LONG-TERM DEBT (cont'd)**Breakdown of debt by currency at time of issuance and impact of swaps and sinking funds** (cont'd)

	2006		2005	
	Long-term debt		Total	
	In Canadian dollars and foreign currency	At closing exchange rates as at the balance sheet date ^a	Swaps	Total
Corporation's debt				
Canadian dollars	22 288	22 288		20 975
U.S. dollars	8 628	11 176	(2 279)	8 810
Other currencies				
Euros	673	1 245	(138)	1 107
Yen	4 500	50		336
Pounds sterling	240	599	(65)	534
Swiss francs	96	96		96
		1 990	(203)	2 073
		35 454	(2 482)	31 858
Subsidiaries' debt				
U.S. dollars	32	37		135
		35 491	(2 482)	31 993

a Includes \$1 400 million in financial liabilities composed of currency swaps and \$707 million in Hydro-Québec securities held in the sinking funds as at December 31, 2006 (respectively \$1 797 million and \$1 070 million as at December 31, 2005).

Breakdown of debt by currency at time of issuance and at time of repayment

The following table shows the breakdown of debt, net of sinking funds, translated into Canadian dollars after taking swaps into account, according to the currency at time of issuance and time of repayment:

	2006		2005	
	At time of issuance	At time of repayment	At time of issuance	At time of repayment
Corporation's debt				
Canadian dollars	22 288	29 140	20 975	26 201
U.S. dollars	8 897	3 832 ^a	8 810	5 657 ^a
Other currencies	1 787		2 073	
	32 972	32 972	31 858	31 858
Subsidiaries' debt				
U.S. dollars	37	37	135	135
	33 009	33 009	31 993	31 993

a Of this amount, 98.8% was used to hedge sales in U.S. dollars as at December 31, 2006 (89.8% as at December 31, 2005).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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12. LONG-TERM DEBT (cont'd)**Interest rates**

The following table shows Hydro-Québec's interest rates, which take into account nominal interest rates on borrowings, debt premiums, discounts and issue expenses, and the effect of interest rate swaps:

%				2006	2005
Maturity	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	6.38	7.25	6.33	6.51	5.06
6 to 10 years	10.76	8.62	11.53	9.83	8.58
11 to 15 years	10.78	9.61	4.88	10.46	10.21
16 to 20 years	9.93	8.38		8.95	9.61
21 to 25 years	6.65	9.24		8.45	8.72
26 to 30 years	5.99			5.99	6.11
31 to 35 years	5.16			5.16	5.36
36 to 40 years	4.80			4.80	6.52
41 to 45 years	6.44			6.44	6.44
46 to 50 years					
51 to 55 years	6.62			6.62	6.62
Weighted average	6.90	8.81	9.70	7.51	7.76

The variable-rate portion of Hydro-Québec's debt amounted to 7.3%, or 8.2% including perpetual debt, as at December 31, 2006 (19.0%, or 20.0% including perpetual debt, as at December 31, 2005). For information purposes, a 1% change in interest rates would have changed the consolidated net income by \$31 million (\$62 million in 2005), if the impact of derivative instruments used to manage short-term financial risk were excluded (Note 16).

Fair value

As at December 31, 2006, the fair value of Hydro-Québec's debt amounted to \$46 729 million (\$44 977 million as at December 31, 2005). Net of sinking funds and after swaps, it totaled \$45 626 million (\$43 719 million as at December 31, 2005).

Fair value is obtained by discounting future cash flows, based on forward and closing interest rates as at the balance sheet date for similar instruments available on financial markets. Changes in fair value reflect sensitivity to market interest rates. However, Management intends to hold these debt securities until maturity. Therefore, as at December 31, 2006, Hydro-Québec did not foresee any significant repayments that could result in the realization of this fair value.

Hydro-Québec has undrawn standby credit facilities, of which US\$2 000 million expires in 2011. Any borrowings under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR). A US\$750-million swing line loan at the U.S. base rate is included in the US\$2 000-million credit facility.

13. ASSET RETIREMENT OBLIGATIONS

Liabilities arising from asset retirement obligations relate to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life, the removal of irradiated nuclear fuel resulting from its operation and the dismantling of oil tanks and of certain thermal generating stations.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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13. ASSET RETIREMENT OBLIGATIONS (cont'd)

Hydro-Québec has also identified asset retirement obligations relating to thermal generating stations and power transmission lines for which no liability has been recorded since it expects to use these assets for an undetermined period. These relate to property, plant and equipment for which the Corporation does not have sufficient information to accurately establish a maturity schedule for the obligation. A liability stemming from these asset retirement obligations will be accounted for in the period in which there is sufficient information to establish such a schedule.

The aggregate carrying amount of the asset retirement obligations is as follows:

				2006
	Dismantling of nuclear generating station	Removal of irradiated nuclear fuel	Dismantling of other assets	Total
Balance at beginning of year	172	92	18	282
Liabilities incurred		2		2
Accretion expense	14	10	1	25
Liabilities settled			(3)	(3)
Revision of estimated cash flows and expected timing of payments	102	23		125
Balance at end of year	288	127	16	431
				2005
	Dismantling of nuclear generating station	Removal of irradiated nuclear fuel	Dismantling of other assets	Total
Balance at beginning of year	162	82	20	264
Liabilities incurred		1		1
Accretion expense	10	9	1	20
Liabilities settled			(3)	(3)
Balance at end of year	172	92	18	282

The carrying amount of the asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station ^a	Removal of irradiated nuclear fuel ^a	Dismantling of other assets
Total undiscounted amount of the estimated cash flows required to settle the obligations			
As at December 31, 2006	795	598	18
As at December 31, 2005	463	519	21

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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13. ASSET RETIREMENT OBLIGATIONS (cont'd)

	Dismantling of nuclear generating station ^a	Removal of irradiated nuclear fuel ^a	Dismantling of other assets
Expected timing of payment of the cash flows required to settle the obligations			
As at December 31, 2006	Between 2011 and 2057	Between 2007 and 2159	Between 2007 and 2031
As at December 31, 2005	Between 2012 and 2050	Between 2012 and 2047	Between 2006 and 2031
Credit quality-adjusted risk-free rate at which the estimated cash flows have been discounted (%)			
Initial recognition of obligations	6.4	6.4	6.4
Subsequent recognition of additional obligations	5.5	5.5	

- 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 approximately 28 years through refurbishment. If the refurbishment is not carried out, Management could decide to decommission the station a few years earlier for technical and economic reasons. Pending the decision, the consolidated financial statements reflect end-of-life in 2011 for purposes of calculating the depreciation of the station and the amortization of the 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, amortization and accretion expenses, as recorded in these consolidated 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. Inflation rates varying between 1.8% and 3.6% were used to determine the asset retirement obligations. As at December 31, 2006, the net carrying amount of Gentilly-2 was \$643 million (\$623 million as at December 31, 2005).

14. OTHER LONG-TERM LIABILITIES

	2006	2005
Deferred exchange gain	1 229	1 454
Debt premiums, discounts and issue expenses	694	322
Accrued benefit liability (Note 20)	544	497
Credit risk management	128	149
Accounts payable	113	159
Regulatory liability (Note 3)	11	
	<u>2 719</u>	<u>2 581</u>

15. PERPETUAL DEBT

Perpetual notes in the amount of US\$289 million as at December 31, 2006 (US\$325 million as at December 31, 2005) bear interest at a rate determined semiannually based on LIBOR, plus 0.0625%. They are guaranteed by the Québec government and are redeemable only at the Corporation's option. In 2006, a portion amounting to US\$36 million was redeemed on the secondary market and then canceled. No portion was redeemed in 2005. Various derivative instruments recorded at fair value are used to mitigate the exchange risk associated with this debt.

As at December 31, 2006, the fair value of the perpetual notes was \$347 million (\$383 million as at December 31, 2005). As at December 31, 2006 and 2005, the rate for these notes was 5.6% and 4.2%, respectively.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

years ended December 31, 2006 and 2005

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16. FINANCIAL INSTRUMENTS**Derivative instruments***Management of risk associated with long-term debt and sales in U.S. dollars*

Hydro-Québec engages in currency swaps and forward contracts in order to manage the foreign exchange risk associated with repayments of principal on long-term debt, interest payments and sales in U.S. dollars. In 2006, a \$234-million foreign exchange gain was recognized on debts and swaps denominated in U.S. dollars. In keeping with the adopted hedge accounting treatment, this amount, which represents the realization of a portion of the deferred foreign exchange gain recorded on the balance sheet, has been incorporated under Revenue. Firm U.S.-dollar sales extending until 2016 are designated in the Corporation's hedging relationships. Some currency swaps provide for the exchange of interest rates in order to modify interest rate risk exposure over the long term. Interest rate swaps that do not allow for exchanges of principal are also used to manage this risk.

The valuation of these swaps and forward contracts, with terms to maturity through 2033, indicated a positive fair value of \$392 million as at December 31, 2006 (positive fair value of \$8 million as at December 31, 2005).

The following table shows the notional amounts of these swaps, expressed in Canadian dollars and other currencies:

Maturity						2006 ^a	2005 ^a
	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	More than 20 years	Total	Total
Swaps							
Canadian dollars	1 290	(829)	(1 078)	(3 201)	(3 035)	(6 853)	(5 226)
U.S. dollars	(1 039)	395	960	2 650	2 359	5 325	3 617
Other currencies							
Yen	2 500	1 000	1 000			4 500	25 600
Euros	612	61				673	673
Pounds sterling	40	200				240	240
Swiss francs	97					97	97
Forward contracts							
U.S. dollars	36					36	477

a Figures in parentheses represent amounts to be paid.

Management of short-term financial risk

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 its foreign exchange risk exposure, it traded in options and foreign currency forward contracts. The notional amount of the open positions as at December 31, 2006, was \$137 million, with \$131 million in purchase contracts and \$6 million in sales contracts (\$731 million as at December 31, 2005, that is, \$389 million in purchase contracts and \$342 million in sales contracts). In order to manage fluctuating interest rates, it traded in options, swaps and forward rate agreements. For information purposes, a 1% variance in interest rates would have resulted in a \$2-million variance in net income as at December 31, 2006 (\$55 million as at December 31, 2005). Finally, to manage the exposure of its revenue to commodity price fluctuations, Hydro-Québec transacted options, swaps and commodity futures for which the open positions as at December 31, 2006, totaled 153 925 tonnes of aluminum (136 500 tonnes of aluminum as at December 31, 2005).

Hydro-Québec also uses derivative instruments to manage market risks resulting from fluctuations in energy prices, and for trading purposes in order to act on business opportunities in markets outside Québec. To hedge these risks, it traded in electricity swaps whose open positions as at December 31, 2006, were for 2.7 TWh (0.3 TWh as at December 31, 2005).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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16. FINANCIAL INSTRUMENTS (cont'd)**Derivative instruments (cont'd)**

The fair value of these instruments is presented by specific risk in the following table. The amounts maturing in 2007 will total \$40 million.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair Value
Foreign exchange risk				
Forward exchange contracts and options				
Financial assets				8
Financial liabilities				(43)
				(35)
Interest rate risk				
Forward rate agreements, options and swaps				
Financial assets	5	5	24	39
Financial liabilities			(3)	(4)
	5	5	21	35
Risk of changes in energy and commodity prices				
Forward contracts, options and swaps				
Financial assets	7	67	16	16
Financial liabilities	(4)	(32)	(2)	(95)
	3	35	14	(79)
	8	40	35	(79)

Other financial instruments

The carrying amount of investments, accounts receivable, the nuclear fuel waste management trust fund, current borrowings, accounts payable and accrued liabilities, dividends payable and accrued interest approximates their fair value, due to their short-term maturities. The carrying amount of the government reimbursement for the 1998 ice storm approximates its fair value, which is estimated by discounting the expected cash flows based on effective interest rates for instruments with similar conditions and maturities. As at December 31, 2006, the weighted average interest rate on short-term investments was 4.19% (3.26% as at December 31, 2005), whereas it was 4.19% on current borrowings (2.81% as at December 31, 2005).

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 reduced by applying a credit policy to limit credit risk concentration and a counterparty credit risk assessment and monitoring program, as well as by setting credit limits, where necessary. With the main financial institutions with which it engages in derivatives trading, Hydro-Québec enters into agreements limiting the market value of the derivatives portfolio. As at December 31, 2006, no counterparty had defaulted on its obligations toward Hydro-Québec regarding investments and derivatives.

Hydro-Québec is also exposed to credit risk associated with accounts receivable. However, this exposure is limited due to Hydro-Québec's large and diverse customer base. Consequently, Management does not consider Hydro-Québec to be exposed to a material credit risk.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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17. INTERESTS IN JOINT VENTURES

The proportionate share of the joint venture items included in the consolidated financial statements is presented in the table below. These joint ventures consist of the interests managed by the Technology Group and Hydro-Québec Production. In 2005, this share also included interests in various foreign joint ventures, mainly held through HQI, which were disposed of in 2006.

	2006	2005
Operations		
Revenue	34	21
Expenditure and financial expenses	34	19
Income (loss) from discontinued operations	43	(89)
Net income (loss)	<u>43</u>	<u>(87)</u>
Balance sheets		
Current assets	63	56
Long-term assets	38	295
Current liabilities	25	56
Long-term liabilities	34	114
Net assets	<u>42</u>	<u>181</u>
Cash flows		
Operating activities	(4)	(5)
Investing activities	(2)	(1)
Financing activities	5	6
Discontinued operations	11	5
Net change in cash and cash equivalents	<u>10</u>	<u>5</u>

18. SHAREHOLDER'S EQUITY

The authorized share capital consists of 50 000 000 shares with a par value of \$100 each, of which 43 741 090 shares were issued and paid-up.

Under the Hydro-Québec Act, the 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 financial year, they cannot exceed the distributable surplus, equal to 75% of the year's net operating revenue and net investment income, less interest on debt securities and amortization of debt premiums, discounts and issues expenses. This calculation is based on the consolidated financial statements.

However, in respect of a given financial year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. The Québec government declares the dividends for a given year within 30 days after the Corporation has sent it the financial data related to the distributable surplus. Upon expiry of the prescribed period, 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.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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18. SHAREHOLDER'S EQUITY (cont'd)

For 2006, the Québec government declared dividends of \$2 342 million (\$1 126 million in 2005), which is less than the maximum permitted.

The dividends declared are deducted from the retained earnings of the year for which they were declared.

19. SUPPLEMENTARY CASH FLOW INFORMATION

	2006	2005
Change in non-cash working capital items		
Accounts receivable	114	44
Materials, fuel and supplies	(20)	(24)
Accounts payable and accrued liabilities	(228)	275
Accrued interest	47	(16)
	<u>(87)</u>	<u>279</u>
Investing activities not affecting cash		
Increase in property, plant and equipment and intangible assets	<u>303</u>	<u>29</u>
Interest paid	2 042	2 245
Income taxes paid	<u>258</u>	<u>21</u>

20. 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 an average of the five best years of earnings. These benefits are indexed annually based on a rate which is the greater of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

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.

The Corporation's employee benefit plans are defined benefit plans. Accrued benefit obligations of these plans, valued by independent actuaries, and assets, at fair value, are valued as at December 31 of each year. The most recent actuarial valuation for purposes of Pension Plan funding was as at December 31, 2005, and the next valuation should be performed no later than December 31, 2008.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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20. EMPLOYEE FUTURE BENEFITS (cont'd)

The following tables present information concerning the Corporation's employee future benefit plans:

	Pension Plan		Other plans	
	2006	2005	2006	2005
Accrued benefit obligations				
Balance at beginning of year	11 925	10 256	837	688
Current service cost	331	293	34	31
Employee contributions	54	38		
Benefit payments and refunds	(420)	(387)	(43)	(39)
Interest on obligations	618	616	42	42
Actuarial losses (gains)	212	1 109	(20)	115
Balance at end of year	12 720	11 925	850	837
Plan assets at fair value				
Balance at beginning of year	11 331	9 982	51	49
Actual return on plan assets	1 497	1 387	2	2
Employee contributions	54	38		
Current contributions by the Corporation	319	307	11	9
Special contributions by the Corporation	62	34		
Benefit payments and refunds	(420)	(387)	(8)	(9)
Administrative fees	(32)	(30)		
Balance at end of year	12 811	11 331	56	51
Surplus (deficit) at end of year	91	(594)	(794)	(786)
Unamortized past service costs	256	295		
Unamortized net actuarial loss	1 833	2 536	156	181
Unamortized transitional (asset) obligation	(1 065)	(1 217)	94	108
Accrued benefit asset (liability)	1 115	1 020	(544)	(497)

Additional disclosures with respect to plan assets

At year end, assets of the plans at fair value consisted of:

%	Pension Plan		Other plans	
	2006	2005	2006	2005
Equities	53	55		
Bonds	33	31	91	90
Short-term investments	8	8	5	6
Real estate investments	5	5		
Other	1	1	4	4
	100	100	100	100

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
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20. EMPLOYEE FUTURE BENEFITS (cont'd)**Additional disclosures with respect to plan assets (cont'd)**

Assets of the plans include the following securities issued by the Corporation and the Québec government:

	Pension Plan		Other plans	
	2006	2005	2006	2005
Bonds	961	763	51	46

Cash payments

Cash payments made by the Corporation for employee benefit plans consist of the contributions paid to funded plans and benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2006	2005
Contributions by the Corporation		
Pension Plan	381	341
Other funded plans	11	9
Benefit payments		
Unfunded plans	35	32
Cash payments	427	382

The Corporation and its employees resumed their contributions to the Pension Plan on December 15, 2003. The employee and employer contribution rates increase by 1% and 1.8%, respectively, each year up to no more than 5.2% of pensionable earnings. In 2006, contributions amounted to 3% of pensionable earnings for employees and 5.2% for the Corporation (2% and 3.6%, respectively, in 2005).

Moreover, after the actuarial valuation for funding purposes dated December 31, 2005, was submitted to the Régie des rentes du Québec, the Corporation made an additional contribution of \$242 million in 2006 to cover current service costs and a special contribution of \$62 million to cover the actuarial deficit (\$254 million and \$34 million, respectively, in 2005).

Elements of accrued benefit cost recognized for the year

	Pension Plan		Other plans	
	2006	2005	2006	2005
Current service cost, ^a	331	293	34	31
Administrative fees ^b	32	30		
Interest on obligations	618	616	42	42
Actual return on plan assets	(1 497)	(1 387)	(2)	(2)
Actuarial losses (gains)	212	1 109	(19)	115
(Credit) cost before adjustments required to recognize the long-term nature of employee future benefits (Amounts carried forward)	(304)	661	55	186

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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20. EMPLOYEE FUTURE BENEFITS (cont'd)**Elements of accrued benefit cost recognized for the year (cont'd)**

	Pension Plan		Other plans	
	2006	2005	2006	2005
Credit (cost) before adjustments required to recognize the long-term nature of employee future benefits (Amounts brought forward)	(304)	661	55	186
Difference between actual and expected return on assets	802	703		
Difference between actuarial (gains) losses on accrued benefit obligations and actuarial losses recognized	(99)	(1 070)	25	(114)
Difference between adjustments for plan amendments and amortization of past service costs	39	44		
Amortization of transitional (asset) obligation	(152)	(152)	14	14
	590	(475)	39	(100)
Cost recognized for the year	286	186	94	86

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 billed to the Pension Plan by the Corporation amounted to \$12 million for 2006 (\$12 million for 2005).

Significant actuarial assumptions

The following actuarial assumptions, used to determine the accrued benefit obligations and cost of the plans, result from a weighted average:

	Pension Plan		Other plans	
%	2006	2005	2006	2005
Accrued benefit obligations				
Rate at end of year				
Discount rate	5.20	5.30	5.20	5.30
Salary escalation rate ^a	3.38	3.89		
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	5.30	6.03	5.30	6.03
Expected long-term rate of return on plan assets	6.25	6.52	4.07	3.68
Salary escalation rate ^a	3.30	3.87		

a This rate takes into account salary increases and promotion opportunities while in service.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2006 and 2005

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20. EMPLOYEE FUTURE BENEFITS (cont'd)**Significant actuarial assumptions (cont'd)**

As at December 31, 2006, health care costs were based on an annual growth rate of 7.6% in 2007. Thereafter, based on the assumption used, this rate will gradually decrease until it ultimately reaches 3.9% in 2015. A 1% change in this annual growth rate would have had the following impact for 2006:

	<u>1% increase</u>	<u>1% decrease</u>
Impact on current service cost and interest cost on accrued benefit obligations for the year	4	(4)
Impact on accrued benefit obligations at end of year	47	(38)

21. COMMITMENTS AND CONTINGENCIES**Electricity purchases**

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 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, 2006, the Corporation was committed under 97 contracts to purchase electricity from other power producers, for an installed capacity of about 3 960 MW. It expects to purchase approximately 13 TWh of energy annually over the terms of these contracts, which extend through 2045. The majority of these contracts include renewal clauses.

The Corporation expects to make the following minimum payments on its electricity purchase contracts over the next five years:

2007	942
2008	1 047
2009	1 132
2010	1 166
2011	1 189

Guarantees

Hydro-Québec grants guarantees to third parties for indemnification purposes in connection with its energy-related transactions on markets outside Québec. These guarantees are issued under long-term agreements and agreements governing its involvement in organized markets. These markets require that each participant provide guarantees enabling it to meet its obligations in the event of a payment default by another participant. Hydro-Québec also grants guarantees as part of its international operations and in the field of electrotechnology.

As at December 31, 2006, the potential maximum amount Hydro-Québec could have to pay under letters of credit or guarantees totaled \$386 million. Of this amount, \$313 million relates to the purchase of energy, for which a liability in the amount of \$26 million has been recorded. Some guarantees expire between 2007 and 2019, while others do not have maturity dates.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2006 and 2005

(in millions of dollars)

21. COMMITMENTS AND CONTINGENCIES (cont'd)**Guarantees (cont'd)**

Hydro-Québec provided guarantees to the purchasers of its interests concerning all its representations and warranties in the sales agreements, for which no liability was recorded. The maximum quantifiable contingent risk under these guarantees is approximately \$322 million. The representations and warranties of the Corporation apply for a period ending no later than December 12, 2007, except with respect to the contingent tax liabilities and certain other customary representations which remain in effect until the applicable limitation periods expire.

In accordance with the terms and conditions of certain debt securities issued outside Canada, the Corporation has a commitment to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. The Corporation cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, the Corporation has the option of redeeming most of the securities in question.

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 maximum amount that the Corporation could be required to pay cannot be reasonably evaluated, however, since it is not stated in the agreement and since the amount payable would depend on the outcome of future events whose nature and probability cannot be determined. To date, the Corporation has not had to pay any amount under this agreement.

Investments

The Corporation expects to invest approximately \$4 billion in property, plant and equipment and intangible assets in 2007.

Agreements entered into with Aboriginal communities and regional county municipalities

Hydro-Québec has entered into various agreements related to capital projects and intangible assets with Aboriginal communities and regional county municipalities. The commitments under these agreements are recorded under Long-term debt if they fall within the definition of a liability, and the consideration is accounted for under Property, plant and equipment and Intangible assets.

Litigation

In the normal course of business, Hydro-Québec is sometimes party to claims and legal proceedings. Management is of the opinion that adequate provisions have been made for any disbursements that could result from these legal actions. Consequently, it does not foresee any adverse effect of such contingent liabilities on Hydro-Québec's consolidated operating results or financial position.

22. RELATED PARTY TRANSACTIONS

In the normal course of business, Hydro-Québec enters into various business transactions with the Québec government and its organizations, as well as with other government corporations. These transactions are measured at the exchange amount.

Other transactions with the Québec government are described elsewhere in the consolidated financial statements.

23. SEGMENTED INFORMATION

Hydro-Québec carries on its activities in the four reportable segments defined below. The non-reportable segments and other activities are grouped together under Corporate and Other Activities for reporting purposes. A Technology Group was formed in 2006, basically covering activities related to technology development and telecommunications. These activities are presented under Corporate and Other Activities and include the transmission system telecommunications activities previously included in the Transmission segment.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2006 and 2005
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23. SEGMENTED INFORMATION (cont'd)

Generation: Hydro-Québec Production operates and develops the Corporation's generating facilities. This division also sells electricity on external markets and engages in energy trading. Hydro-Québec Production provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually at an average price of 2.79¢/kWh. In excess of this volume, it can participate in Hydro-Québec Distribution's calls for tenders in a context of free market competition.

Transmission: Hydro-Québec TransÉnergie develops and operates the Corporation's electric power transmission system in Québec.

Distribution: Hydro-Québec Distribution develops and operates the Corporation's distribution system and is responsible for sales and services to Québec customers. It also ensures the security of the supply of electricity to the Québec market.

Construction: Hydro-Québec Équipement carries out engineering and construction work related to hydroelectric development projects throughout Québec, except on the territory governed by the James Bay and Northern Québec Agreement, where Société d'énergie de la Baie James assumes this responsibility. Hydro-Québec Équipement also carries out projects for the construction of power transmission lines and substations throughout Québec.

Corporate and Other Activities: This corporate units support the divisions in the achievement of their business objectives. They include the Technology Group, the Finance Group, the Human Resources and Shared Services Group, as well as Corporate Affairs and General Secretariat. The Shared Services Centre brings together services offered throughout the Corporation, including goods and services procurement, real estate management, material and transportation service management, and information technology. Corporate and Other Activities also includes activities related to exporting Hydro-Québec's expertise abroad.

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 Notes 1 and 3.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for by the Act respecting the Régie de l'énergie. The Act sets a commodity rate for a base volume of up to 165 TWh of heritage pool electricity for the Québec market.

The other intersegment products and services are valued at full cost.

Hydro-Québec derives the bulk of its revenue in Québec, and substantially all its property, plant and equipment is located in the province. In 2006, revenue from outside Quebec amounted to \$1 368 million, with \$1 054 million coming from the United States (\$1 665 million and \$1 387 million, respectively, in 2005).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

23. SEGMENTED INFORMATION (cont'd)

The following tables contain information related to operations and assets by segment:

							2006
	<u>Generation</u>	<u>Transmis- sion</u>	<u>Distribu- tion</u>	<u>Construc- tion</u>	<u>Corporate and Other Activities</u>	<u>Inter- segment elimina- tions</u>	<u>Total</u>
Revenue							
External customers	1 594	32	9 488		48	(1)	11 161
Intersegment	4 570	2 809	55	1 999	1 146	(10 579)	
Depreciation and amortization	760	535	570	7	144	(9)	2 007
Financial expenses	1 058	724	407	(1)	23	1	2 212
Income from continuing operations	2 114	632	42	2		7	2 797
Net income	2 114	632	42	2	944	7	3 741
Total assets	28 674	15 879	11 424	214	7 272	(215)	63 248
Investments in property, plant and equipment and intangible assets							
Affecting cash	1 615	882	690	4	157		3 348
Not affecting cash	273	14	16				303

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2006 and 2005
(in millions of dollars)

23. SEGMENTED INFORMATION (cont'd)

							2005
	<u>Generation</u>	<u>Transmis- sion</u>	<u>Distribu- tion</u>	<u>Construc- tion</u>	<u>Corporate and Other Activities</u>	<u>Inter- segment elimina- tions</u>	<u>Total</u>
Revenue							
External customers	1 708	27	9 181	6	15	(49)	10 888
Intersegment	4 532	2 467	55	2 053	1 074	(10 181)	
Depreciation and amortization	882	495	489	5	152		2 023
Financial expenses	1 050	691	384		61	1	2 187
Income (loss) from continuing operations	1 873	380	172	5	(71)	(8)	2 351
Net income (loss)	1 873	380	230	5	(228)	(8)	2 252
Total assets	27 482	15 553	10 556	242	6 831	(232)	60 432
Investments in property, plant and equipment and intangible assets							
Affecting cash	1 780	723	645	6	128		3 282
Not affecting cash	9	12	8				29

HYDRO-QUÉBEC**MANAGEMENT REPORT**

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 consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and with decisions handed down by the Régie de l'énergie with respect to the transmission and distribution of electricity. They include amounts determined based on Management's best estimates and judgment. Financial information presented elsewhere in the Annual Report is consistent with the information provided in the consolidated financial statements.

Management maintains an internal control system which includes communicating Hydro-Québec's code of ethics and a code of conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that the financial information is pertinent and reliable and that the assets of Hydro-Québec are adequately recorded and safeguarded. An internal auditing process allows evaluation of the sufficiency and effectiveness of control, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally through its Audit Committee, composed solely of independent directors, who do not hold full-time positions within the Corporation or in one of its subsidiaries. The Audit Committee's mandate is to ensure that the consolidated financial statements present fairly Hydro-Québec's financial position, the results of its operations and its cash flows, and to recommend the financial statements to the Board of Directors for approval. 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 control systems. The General Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management present.

The external auditors are appointed by the Québec government, the sole shareholder of the Corporation. The 2006 consolidated financial statements have been audited jointly by the external auditors, KPMG LLP and Ernst & Young LLP.

Michael L. Turcotte
Chairman of the Board

Thierry Vandal
President and Chief Executive Officer

Daniel Garant
Executive Vice President,
Finance and Chief Financial Officer

Montréal, Québec, February 9, 2007

HYDRO-QUÉBEC

AUDITORS' REPORT

To the Minister of Finance of Québec

We have audited the consolidated balance sheets of Hydro-Québec as at December 31, 2006 and 2005, and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, except for the prospective application of changes in accounting policies described in Note 2 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP, s.r.l./S.E.N.C.R.L.
Chartered Accountants

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

Montréal, Québec, February 9, 2007

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31
(in millions of dollars)

	<u>2006</u>	<u>2005</u>
INVESTMENTS (Notes 3 and 7)		
Cash	50	20
Short-term deposits	1 053	892
Bonds	4 243	3 582
Equities	6 757	6 183
Real estate investments	687	618
Derivative financial instruments (Note 4)	<u>(22)</u>	<u>(14)</u>
	<u>12 768</u>	<u>11 281</u>
ACCOUNTS RECEIVABLE		
Member contributions	3	2
Employer's contributions	17	34
Interest and dividends	<u>45</u>	<u>34</u>
	<u>65</u>	<u>70</u>
Other assets	<u></u>	<u>1</u>
	12 833	11 352
Accounts payable	<u>22</u>	<u>21</u>
Net assets available for benefits	<u>12 811</u>	<u>11 331</u>

See notes to the financial statements.

On behalf of Hydro-Québec, Pension Fund trustee

Norman E. Hébert jr.
Chairman of the Audit Committee

Michael L. Turcotte
Chairman of the Board

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
year ended December 31
(in millions of dollars)

	2006	2005
INCREASE IN ASSETS		
Investment income		
Short-term deposits	38	18
Bonds	154	135
Equities	153	142
Real estate investments	38	35
	<u>383</u>	<u>330</u>
Changes in market value of investments during the year		
Realized gains	576	451
Unrealized gains	538	606
Contributions (Note 5)		
Members	54	38
Employer	<u>380</u>	<u>340</u>
	<u>1 931</u>	<u>1 765</u>
DECREASE IN ASSETS		
Benefits paid	377	349
Value transfers and refunds	42	37
Administrative and investment expenses (Note 7)	<u>32</u>	<u>30</u>
	<u>451</u>	<u>416</u>
CHANGE IN NET ASSETS DURING THE YEAR	1 480	1 349
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	<u>11 331</u>	<u>9 982</u>
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	<u>12 811</u>	<u>11 331</u>

See notes to the financial statements.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005
(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

Hydro-Québec and its wholly owned subsidiary, Hydro-Québec International (collectively the “employer”) offer to all employees a contributory defined benefit pension plan based on final pay.

The Plan is registered with the Régie des rentes du Québec and the Canada Revenue Agency.

Hydro-Québec is the trustee of the pension fund and, in this capacity, manages the Plan’s investments.

b) Funding policy

Under the By-law, members and the employer must fund the Plan to accrue defined benefits under the Plan’s provisions. The value of accrued benefits is based on an actuarial valuation that must be filed at least once every three years. The actuarial valuation is established on a funding and on a solvency basis.

The actuarial valuation report for the Plan sets out the amount to be paid by the employer to the Pension Plan fund. Employer contributions cover the balance of the current service cost not funded by member contributions or a funding surplus. Finally, amortization payments must be made by the employer in order to fund any actuarial deficit.

According to the By-law, additional employer contributions paid over and above regular contributions and amortization payments are accrued and credited according to the rate of return of the fund. They are remitted to the employer as soon as a sufficient funding surplus is reported. This remittance takes the form of a reduction in the regular employer contributions.

c) Member and regular employer contributions

The By-law provides for the suspension of member and regular employer contributions when an actuarial valuation report for the Plan shows a funding ratio greater than or equal to 110%. The members and the employer will resume contributions when an actuarial valuation for Plan funding purposes shows a funding ratio that is less than 110%. Member contributions cannot be increased by more than 1% of earnings each year, and regular employer contributions equal 180% of member contributions up to the maximum amounts set out in the By-law.

Maximum contributions may not exceed 6.3% of earnings up to the basic exemption established by the Act respecting the Québec Pension Plan, 4.5% of that portion of earnings between the basic exemption and the maximum pensionable earnings and 6.3% of that portion of earnings exceeding the maximum pensionable earnings.

d) Retirement age

Normal retirement age is 65. However, as of 55 years of age, members may receive an offset benefit or a normal retirement annuity, in accordance with the provisions of the By-law. In addition, until December 31, 2008, the Plan offers members the possibility of receiving a normal retirement annuity, regardless of their age, if the sum of their age and the number of years of contribution meets the conditions set out in the By-law.

e) Retirement benefits

Retirement benefits are based on an annual 2.25% pension credit in respect of years of credited service and the average five best years of earnings, save for exceptions provided for in the By-law. Pensionable earnings include certain lump sums, in whole or in part, paid under profit-sharing or performance management plans.

Bridging benefits payable until the ages of 60 and 65 are offered to members who leave before the normal retirement age. They are calculated based on the number of years of credited service in the Plan prior to January 1, 2009, and on the average of the earnings for the best five years, up to the average maximum pensionable earnings of the five years preceding the date of termination of employment, death or retirement.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

1. DESCRIPTION OF PLAN (cont'd)**e) Retirement benefits (cont'd)**

Benefits in respect of years of service after 1991 are subject to the limits prescribed in the Income Tax Act (Canada).

After retirement, vested benefits are adjusted for inflation according to a formula based on the consumer price index.

On the 65th birthday of a member, vested benefits are reduced by an amount determined pursuant to the By-law so as to be coordinated with the retirement benefits paid by the Régie des rentes du Québec.

f) Death benefits

In the event of death, benefits are payable to a spouse, eligible children or beneficiaries. Survivor benefits can 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.

g) Termination benefits (deferred retirement benefits, value transfers and refunds)

If the member is under 55 years of age at the time of termination of employment, the benefits payable will be the transfer of the actuarial present value of the retirement benefit as presented above or a deferred retirement benefit payable when the member reaches the age of 55. If the member is 55 years of age or older at the time of termination of employment, the member may receive a retirement benefit on the first day of the month following termination of employment or a deferred retirement benefit or a transfer of the actuarial present value.

h) Buyback of pension credits

The By-law allows members to buy back pension credits for various unpaid or partially paid leaves of absence until December 31, 2008.

i) Value transfers

Under the By-law, the employer may draw up an agreement with any other employer that has a pension plan to facilitate the mutual transfer of their employees. Transfer payments received under such an agreement are used to recognize members' years of service in the Plan.

j) 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.

k) Income taxes

The Plan is a registered pension plan within the meaning of the Income Tax Act (Canada) and therefore is not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Basis of presentation**

The financial statements of the Hydro-Québec Pension Plan have been prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles. These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of its sponsor, Hydro-Québec, and plan members, and are prepared to assist plan members and others in reviewing the activities of the Plan for the year. However, they do not portray the funding requirements of the Plan or the benefit security of individual members.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) Basis of presentation (cont'd)

The presentation of financial statements for the Plan requires that the plan trustee make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. In the opinion of the plan trustee, the financial statements have been properly prepared using careful judgement within reasonable limits of materiality, and within the framework of the accounting policies summarized below.

b) Investments

Investments are recorded according to the nature of the security, regardless of the associated derivative instruments.

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Publicly traded securities are recorded on the trade date.

Investments are stated at market value, which is determined using publicly quoted prices. When such market prices are not available, market values are estimated on the basis of the present value of estimated future net cash flows, the market value of comparable assets, or the breakup value of underlying assets. Any gains or losses on changes in their fair market value are reflected on the statement of changes in net assets available for benefits. Market value is determined as follows:

Cash and short-term deposits

Cash and short-term deposits (bank deposits, treasury bills, deposit certificates and bankers' acceptances) are valued at cost, which approximates their fair value.

Bonds

Bonds are valued at average closing bond market prices.

Equities

Equities are valued at closing market prices.

Real estate investments

Real estate investments are valued at their most recent estimated fair value. An independent appraisal is performed at least once a year for real estate and related mortgages. These appraisals are reviewed at year end to ensure that no significant event occurred that could alter the values.

Derivative financial instruments

Listed derivative financial instruments are valued using quoted market prices. Where quoted market values are not available, derivative financial instruments are valued using the present value of future net cash flows determined by using closing market prices and interest rates for instruments of similar maturity and credit risk. They include forward contracts, options and swap agreements.

c) Investment income

Dividends are recognized at the ex-dividend date, while other income is recognized on the accrual basis as earned.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**d) Gains and losses realized on investments**

Gains and losses realized on the sale of investments are accounted for at the date of the sale, computed using the average cost of the assets, and are recorded on the statement of changes in net assets available for benefits under Changes in market value of investments during the year.

e) Foreign currency translation

The fair values of the investments, interest and dividends receivable that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year end. Income from transactions made in foreign currencies is translated into Canadian dollars at the exchange rates prevailing on the transaction date.

f) Contributions and transfers

Member contributions, regular and additional employer contributions, and amortization payments by the employer, are recorded on an accrual basis. Transfer payments are recorded as member contributions when received.

3. INVESTMENTS

The Hydro-Québec pension fund investment policy sets forth the principles governing the management of pension fund investments.

Cost of investments and fair value

	2006		2005	
	Fair value	Cost	Fair value	Cost
Cash	50	50	20	20
Short-term deposits				
Canadian dollars	1 014	1 014	892	892
U.S. dollars	39	39		
	1 053	1 053	892	892
Bonds				
Nominal	3 625	3 283	2 945	2 628
Real return	618	453	637	435
	4 243	3 736	3 582	3 063
Equities				
Canadian dollars	3 739	2 634	3 688	2 664
U.S. dollars	1 533	1 344	1 234	1 220
Other currencies	1 485	1 132	1 261	1 114
	6 757	5 110	6 183	4 998
Real estate investments ^a	687	478	618	502
Derivative instruments	(22)	(7)	(14)	(4)
	12 768	10 420	11 281	9 471

a Net of the value of mortgages, totalling \$216 million (\$138 million in 2005).

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

3. INVESTMENTS (cont'd)

Cost of investments and fair value (cont'd)

As at December 31, 2006, investments with a market value of \$34.6 million (\$24.7 million in 2005) were pledged as security to cover the margin required under derivative contracts.

a) Foreign currency risk

Foreign currency risk results from Plan investments denominated in currencies other than the Canadian dollar.

Currency exposure^a (%)

	2006	2005
Canadian dollars	79	75
U.S. dollars	8	13
Other currencies	13	12
	<u>100</u>	<u>100</u>

a After allocating the effect of derivative instruments.

Derivative instruments are used to manage foreign currency risk and to take advantage of opportunities on the foreign exchange market.

b) Market risk

Market risk refers to the possibility that the market value of an investment will fluctuate due to changes in market price caused by factors specific to the security or its issuer or factors affecting all securities traded on the market. The Hydro-Québec pension fund investment policy favors a diversified portfolio structure to manage the portfolio's market risk.

The equities and bonds are from different issuers and sectors. The following table presents the breakdown of securities by economic sector:

Investment classification by economic sector

	2006			2005		
	Bonds	Equities	Total	Bonds	Equities	Total
Government	3 371		3 371	2 658		2 658
Financial services	494	1 817	2 311	589	1 723	2 312
Consumer	26	1 182	1 208	46	1 221	1 267
Energy	211	861	1 072	107	866	973
Industrial	4	613	617	1	564	565
Other	137	2 284	2 421	181	1 809	1 990
	<u>4 243</u>	<u>6 757</u>	<u>11 000</u>	<u>3 582</u>	<u>6 183</u>	<u>9 765</u>

c) Interest rate risk

Interest rate risk refers to the effect on the market value of Plan assets and liabilities due to the fluctuation in interest rates. The impact on the value of fixed income investments depends on the maturities and cash flows of the pension fund's assets. It is estimated that a 1% increase in interest rates would result in an 11% decline (10% in 2005) in the fair value of the bond portfolio and would also result in a decrease in the value of pension benefit obligations under the Plan.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

3. INVESTMENTS (cont'd)**c) Interest rate risk (cont'd)**

Maturity classification and average effective yields of fixed income investments

	2006			
	Maturities			
	< 1 year	1 to 5 years	5 years	Total
Short-term deposits	1 053			1 053
Nominal bonds	253	977	2 395	3 625
Real return bonds			618	618
	1 306	977	3 013	5 296
				Average effective yield
				4.3
				4.4
				2.0 ^a

a Real effective rate.

	2005			
	Maturities			
	< 1 year	1 to 5 years	5 years	Total
Short-term deposits	892			892
Nominal bonds	150	1 207	1 588	2 945
Real return bonds			637	637
	1 042	1 207	2 225	4 474
				Average effective yield
				3.3
				4.3
				1.5 ^a

a Real effective rate.

d) Credit risk

As at December 31, 2006, the largest credit concentration was in Government of Canada bonds and treasury bills. These securities, with a fair value of \$1 934 million, represented 15% of the total investments as at December 31, 2006 (\$2 002 million and 18% as at December 31, 2005).

Certain derivative instruments include an inherent element of risk, since a counterparty may be unable to meet its obligations. However, this risk is considered to be low given that Hydro-Québec, as trustee, deals only with recognized stock exchanges and counterparties with high credit ratings.

e) Real estate commitment

As at December 31, 2006, the pension fund has a commitment to subscribe to up to \$7.5 million of the share capital of a real estate corporation. This amount was paid out on January 19, 2007. On January 30, 2007, an additional commitment was made for up to \$20.2 million.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Hydro-Québec pension fund investment policy allows for the use of derivative financial instruments to effectively and cost-effectively manage pension fund assets. Derivative financial instruments may be used to change the asset mix as well as in certain portfolios to take advantage of market opportunities.

The value of a derivative financial instrument is based on the value of the underlying asset, interest rate, index or exchange rate.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

4. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

a) Forward and future contracts

Forward and futures contracts are contractual agreements to buy or sell a currency or a given financial instrument at the specific date and prices set out in the contract. These could be foreign exchange forward contracts or currency futures, commodity futures, equity index futures or bond futures.

b) Swaps

Swaps are contractual agreements under which fixed or variable interest payments are exchanged for fixed or variable rate interest amounts receivable or for a return based on changes in certain stock or bond indexes, depending on the type of contract.

c) Options

Options are contracts where the holder has the right rather than the obligation to take delivery of or to deliver a financial instrument at the specified price at a given date or within a specified time frame.

The following table presents the notional amounts and the fair value of derivative financial instruments held as at December 31.

Derivative financial instruments classification by market category and type of instrument

	2006		2005	
	Notional amount	Fair value	Notional amount	Fair value
Equity derivative products				
Forward and futures contracts	462		374	
Options				
Exchange traded	6		(11)	(1)
Over-the-counter	(4)	(1)	(1)	(1)
Currency derivative products				
Forward and futures contracts	(63)	(18)	(245)	(10)
Options				
Over-the-counter	(202)	(1)	5	
Interest rate derivative products				
Forward and futures contracts	1 699		20	
Options				
Exchange traded	272	(1)	45	
Swaps	30			
Commodity derivative products				
Forward and futures contracts	92		90	
Options				
Exchange traded		(1)	(23)	(2)
		(22)		(14)

The contracts for derivative products presented above mature within one year except for swaps and certain forward and futures contracts with a notional value of \$92 million.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

4. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

The following table presents the pension fund portfolio's final exposure to market risk for the various asset classes as at December 31, 2006. This exposure results from direct investments and the use of derivative financial instruments. The effect of derivative financial instruments is presented according to the fair value of the underlying financial instruments. Investments include interest and dividends receivable.

Asset mix to final exposure to market risk

	2006	2005
Fixed income		
Nominal bonds	3 771	3 128
Real return bonds	619	638
Cash and short-term deposits	252	170
Equity		
Canadian market	3 989	3 942
U.S. market	1 735	1 435
International market	1 676	1 377
Real estate investments	691	625
Commodities	80	
	<u>12 813</u>	<u>11 315</u>

5. CONTRIBUTIONS

The member contribution rate in 2006 was 3% of pensionable earnings (2% in 2005) while regular employer contributions represented on average 5.1% of pensionable earnings (3.6% in 2005).

Member contributions

	2006	2005
Regular contributions	45	28
Buybacks	9	10
	<u>54</u>	<u>38</u>

Due to a funding deficit as at December 31, 2005, employer contributions for 2006, like those for 2005, were increased in excess of the regular contributions to cover the current service cost, which exceeds member and regular employer contributions. The employer also made an amortization payment of \$62 million in 2006 (\$34 million in 2005) to fund the deficit as at December 31, 2005 (December 31, 2004), over a 15-year period.

Employer's contributions

	2006	2005
Regular contributions	76	52
Additional contributions	242	254
Amortization payments	62	34
	<u>380</u>	<u>340</u>

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2006 and 2005
(in millions of dollars)

5. EMPLOYER'S CONTRIBUTIONS (cont'd)

An actuarial valuation report as at December 31, 2006, was filed with the Régie des rentes du Québec in February 2007. This valuation showed a funding surplus of \$395 million and a solvency surplus of \$490 million. The funding surplus, along with the balance of accumulated additional and amortization payments as at December 31, 2006, is sufficient to allow an employer contribution holiday for 2007 in accordance with the By-law.

Accumulated additional contributions and amortization payments

	2006	2005
Accumulated additional contributions and amortization payments at beginning of year	295	
Contributions for the year	304	288
Interest according to pension fund's rate of return	73	7
	<u>672</u>	<u>295</u>

6. 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, 2006.

The actuarial present value of accrued retirement benefits is determined using the projected benefit method prorated on years of service and Hydro-Québec's Management's best estimate assumptions with respect to future events.

Actuarial present value of accrued benefits

	2006	2005
Balance, at beginning of year	11 893	10 233
Accrued benefits	384	329
Accrued interest on accrued benefits	616	614
Benefit payments, value transfers and refunds	(419)	(386)
Net experience losses and changes in assumptions	211	1 103
Balance, at end of year	<u>12 685</u>	<u>11 893</u>

Significant actuarial assumptions

Discount rate (%)	5.2	5.3
Salary escalation rate ^a (%)	3.4	3.9

a This rate is a weighted average that takes salary increases into account as well as promotion opportunities while in service.

7. RELATED PARTY TRANSACTIONS

The pension fund's investments include nominal bonds issued by Hydro-Québec and by its shareholder, the Québec government. These securities represent 7.5% of the net assets available for benefits as at December 31, 2006 (6.7% as at December 31, 2005). Also, administrative and investment expenses amounting to \$11.6 million in 2006 (\$11.6 million in 2005) are attributable to the cost of services rendered by Hydro-Québec.

8. 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

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, 2006, and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Hydro-Québec's Management, 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, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP, s.r.l./S.E.N.C.R.L.
Chartered Accountants

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

Montréal, Canada, February 13th, 2007

IMMOBILIÈRE SHQ
(R.S.Q., c. I-0.3)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Consideration receivable from organizations for use of capital assets	168 798	174 615
Interest earned, etc. (Note 3)	31 870	32 839
Gain on sale of capital assets	14	18
Gouvernement du Québec subsidy	132	575
	<u>200 814</u>	<u>208 047</u>
EXPENSES		
Interest	143 833	151 285
Amortization	44 584	41 465
Amount remitted to organizations for gain on sale of capital assets	14	69
Administrative expenses, etc. (Note 3)	513	739
	<u>188 944</u>	<u>193 558</u>
NET INCOME	11 870	14 489
RETAINED EARNINGS, BEGINNING OF YEAR	<u>36 009</u>	<u>21 520</u>
RETAINED EARNINGS, END OF YEAR	<u><u>47 879</u></u>	<u><u>36 009</u></u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Capital assets (Note 4)	1 638 554	1 680 491
Loans (Note 5)	402 364	414 041
Accrued interest on loans	6 264	6 448
Accounts receivable	32 013	32 962
Cash and cash equivalents (Note 6)	<u>11 853</u>	<u>12 486</u>
	<u>2 091 048</u>	<u>2 146 428</u>
LIABILITIES		
Long-term debt (Note 7)	1 974 535	2 042 883
Deferred subsidies		
Canada Mortgage and Housing Corporation	4 941	5 000
Gouvernement du Québec	40	43
Housing authorities	7 175	4 551
Interest accrued on debt	42 944	44 409
Accounts payable	<u>4</u>	<u>3</u>
	<u>2 029 639</u>	<u>2 096 889</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 9)	13 530	13 530
Retained earnings	<u>47 879</u>	<u>36 009</u>
	<u>61 409</u>	<u>49 539</u>
	<u>2 091 048</u>	<u>2 146 428</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Roger Dionne, Chairman
Jean-Luc Lesage, Vice-Chairman

IMMOBILIÈRE SHQ

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash inflows – organizations	169 730	177 368
Cash inflow – Gouvernement du Québec subsidy	132	575
Cash inflow– Housing authorities contribution	2 648	4 408
Cash payments – administrative expenses	(511)	(575)
Cash payments – organizations	(14)	(116)
Cash payments – dispute settlement		(208)
Interest received	31 984	32 750
Interest paid	(145 298)	(154 434)
	<u>58 671</u>	<u>59 768</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Encashment on loans	11 677	11 230
Proceeds on sale of capital assets	15	175
Acquisition of capital assets	(2 648)	(5 164)
	<u>9 044</u>	<u>6 241</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowing repayment		(85 786)
Long-term debt		80 628
Long-term debt repayment	(68 348)	(65 016)
	<u>(68 348)</u>	<u>(70 174)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(633)	(4 165)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12 486</u>	<u>16 651</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u>11 853</u>	<u>12 486</u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS**

as at December 31, 2006

(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 mandated the Société d'habitation du Québec, a legal entity established by a special statute (R.S.Q., c. S-8), to administer, for a consideration, its property and the resulting obligations and to manage the everyday affairs related to this property.

2. ACCOUNTING POLICIES

Preparation of Immobilière SHQ's financial statements, in accordance with Canadian generally accepted accounting principles, requires Société d'habitation du Québec management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements. The amounts shown and the information provided in the notes are based on Société d'habitation du Québec management's best estimates.

Capital assets

Capital assets are recorded at cost.

Capital assets are amortized in accordance with the sinking fund method (increasing allotment) and a rate of 7.5% so as to completely amortize the cost of buildings over 35 and 40 years.

Cash and cash equivalents

It is Immobilière SHQ's policy to present cash and highly liquid short-term investments that are easily convertible into a known amount of cash whose value should not change significantly under cash and cash equivalents.

3. ADMINISTRATIVE EXPENSES, ETC.

	2006	2005
Management fees (Note 10)	513	575
Dispute settlement *		140
Loss on sale of capital assets *		24
	513	739

* These expenses are offset by revenues from organizations and posted under Interest, etc.

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

4. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Land *	101 725		101 725	101 726
Buildings	1 790 560	253 731	1 536 829	1 578 765
	<u>1 892 285</u>	<u>253 731</u>	<u>1 638 554</u>	<u>1 680 491</u>

* Immobilière SHQ holds the indefinite, superficiary user's rights for land belonging to the Ville de Montréal for \$13.7 million.

5. LOANS

	2006			2005
	Fixed interest rates maturing			
	from 2007 to 2019	from 2020 to 2024	from 2025 to 2030	Total
Loans guaranteed by real estate mortgages, repayable in monthly or annual instalments at an interest rate of:				
6.875%	7 287	57 686		64 973
7.000% to 7.500%	70	50 964	14 776	67 713
7.625% to 7.875%	92	98 818	50 435	153 534
8.000% to 8.625%		33 160	76 452	112 108
10.500% to 15.125%	<u>1 576</u>		<u>190</u>	<u>1 766</u>
	<u>9 025</u>	<u>240 628</u>	<u>141 853</u>	<u>402 813</u>
Unsecured loans, repayable in monthly instalments at an interest rate of:				
5.050%		163		171
6.875%		7 956		8 278
8.000%			2 739	2 779
		<u>8 119</u>	<u>2 739</u>	<u>11 228</u>
	<u>9 025</u>	<u>248 747</u>	<u>144 592</u>	<u>414 041</u>

Encashments receivable over the coming fiscal years on loans are:

2007	12 620
2008	13 489
2009	14 541
2010	15 677
2011	<u>16 901</u>
Amount carried forward	<u>73 228</u>

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

5. LOANS (cont'd)

Amount brought forward	73 228
2012 to 2015	81 871
2016 to 2020	140 226
2021 to 2025	91 426
2026 to 2030	15 613
Total	<u>402 364</u>

6. CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
Cash on hand	3	63
Short-term investments, at cost, 4.48%	<u>11 850</u>	<u>12 423</u>
	<u>11 853</u>	<u>12 486</u>

7. LONG-TERM DEBT

	<u>2006</u>			<u>2005</u>
	<u>Fixed interest rates maturing</u>			
	<u>from 2007 to 2015</u>	<u>from 2019 to 2032</u>	<u>Total</u>	<u>Total</u>
Canada Mortgage and Housing Corporation Bonds				
3.720% to 6.240%, repayable in monthly instalments	742 927 *		742 927	776 084
6.875% to 11% repayable in annual or semi- annual instalments and redeemable in advance	70	339 628	339 698	352 258
5.944%, repayable in annual instalments	983	296 660	297 643	303 932
Loan guaranteed by real estate mortgage 7.875%, repayable in monthly instalments		537	537	552
	<u>743 980</u>	<u>636 825</u>	<u>1 380 805</u>	<u>1 432 826</u>
Other				
Bonds, repayable in annual instalments and insured by the Canada Mortgage and Housing Corporation at interest rate of: 8.950% to 11.375%	593 567 *		593 567	609 886
Term loan, 5.050%, repayable in monthly instalments	163 *		163	171
	<u>593 730</u>		<u>593 730</u>	<u>610 057</u>
	<u>1 337 710</u>	<u>636 825</u>	<u>1 974 535</u>	<u>2 042 883</u>

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

7. LONG-TERM DEBT (cont'd)

* At term, the balance owing on these debts will be refinanced.

Assuming that refinancing occurs at term under the same conditions as upon signing, capital payments to make in the coming fiscal years on the long-term debt would be:

2007	69 538
2008	74 166
2009	79 236
2010	84 674
2011	90 508
	<u>398 122</u>
2012 to 2015	416 770
2016 to 2020	535 837
2021 to 2025	466 777
2026 to 2032	<u>157 029</u>
Total	<u>1 974 535</u>

8. SHORT-TERM BORROWING

Immobilier SHQ is authorized to contract short-term borrowings from financial institutions and the Gouvernement du Québec's Financing Fund, a jointly-controlled entity, to a maximum of \$500 million.

Any borrowing thus contracted bears interest at the rate negotiated when it was contracted, generally 1.5% less than the prime rate.

9. CAPITAL STOCK

Immobilier SHQ shares are held by the Minister of Finance.

	<u>2006</u>	<u>2005</u>
Authorized		
150 000 shares with a par value of \$100 each		
Issued and paid up		
135 300 shares	<u>13 530</u>	<u>13 530</u>

10. RELATED PARTY TRANSACTIONS

During the fiscal year, Immobilier SHQ carried out transactions with entities controlled with or related through members of management of the Société d'habitation du Québec. The amount of these transactions and the resulting balances in the financial statements at year-end are:

	<u>2006</u>	<u>2005</u>
Société d'habitation du Québec		
Management fees	513	575
Accounts payable	2	

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

10. RELATED PARTY TRANSACTIONS (cont'd)

	2006	2005
Société de gestion immobilière – SHQ		
Consideration payable by organizations for use of capital assets	2 395	2 591
Accounts receivable	333	344
Corporation d'hébergement du Québec		
Interest and other	2 584	2 651
Loans	33 488	34 418
Interest accrued on loans	1 251	1 285

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Immobilière SHQ is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

11. 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 rate risk for the long-term debt for capital assets owned by Immobilière SHQ is also minimal since the consideration payable by organizations for the use of these capital assets equals the amount of capital, interest, costs and related amounts for all long-term debts and short-term borrowings contracted to finance their acquisition, construction or renovation.

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, 2006, the fair value of Immobilière SHQ's \$1 975 million (2005: \$2 043 million) long-term debt was \$2 124 million (2005: \$2 226 million), given the discounting of cash flows at comparable market rates for similar fixed-rate shares. However, in the above-mentioned fair value, \$637 million (2005: \$656 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 20 to 30 years.

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

11. FINANCIAL INSTRUMENTS (cont'd)**Fair value of financial instruments (cont'd)***Other assets and liabilities*

The fair value of cash, short-term investments, accounts receivable, interest accrued on borrowing and debt, and accounts payable equals their book value, given that they mature in the short term.

12. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

MANAGEMENT'S REPORT

As per the management agreement between the Société d'habitation du Québec and Immobilière SHQ, the financial statements of Immobilière SHQ were prepared by management, which is responsible for providing complete, accurate data, notably significant judgements and estimates, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the balance sheet and the financial statements.

To fulfil its mandate, Société d'habitation du Québec maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded, that property is protected, and that transactions are properly approved and accurately recorded on a timely basis and result in 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 must oversee the manner in which the Société d'habitation du Québec performs its financial reporting duties. It meets with the latter and the Auditor General of Québec, examines the financial statements and approves them.

The Auditor General of Québec has audited Immobilière SHQ's financial statements for the fiscal year ended December 31, 2006 in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

I am in a position to confirm that the Société d'habitation du Québec has properly met all of the obligations and commitments stipulated in the management contract.

Robert Madore
President and Director General,
Société d'habitation du Québec

Québec, March 2, 2007

IMMOBILIÈRE SHQ**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Immobilière SHQ as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Immobilière SHQ. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of Immobilière SHQ's as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Auditor General of Québec
Diane Bergeron, CA
Executive Director

Québec, March 2, 2007

INSTITUT DE LA STATISTIQUE DU QUÉBEC
(R.S.Q., c. I-13.011)

STATEMENT OF INCOME AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Gouvernement du Québec subsidies		
- Operating subsidy	\$14 189 500	\$13 393 600
- Other non-recurrent subsidy (pay equity)	181 789	145 283
Services rendered	9 915 666	9 965 847
Other revenue	204 726	147 103
	<u>24 491 681</u>	<u>23 651 833</u>
EXPENSES		
Salaries and fringe benefits	18 498 930	17 031 213
Professional fees	1 362 036	1 260 819
Rent	1 589 325	1 559 414
Computer services and supplies	544 773	493 024
Purchase of statistical data	517 782	435 029
Communications	394 036	370 074
Travel and accommodation expenses	278 881	297 297
Office expenses	179 538	161 854
Printing costs	241 606	184 179
Training costs	153 660	125 526
Amortization of capital assets	256 944	388 164
Amortization of intangible assets	850 993	1 013 458
Other expenses	103 114	73 439
	<u>24 971 618</u>	<u>23 393 490</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(479 937)	258 343
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>505 858</u>	<u>247 515</u>
CUMULATED SURPLUS, END OF YEAR	<u><u>\$25 921</u></u>	<u><u>\$505 858</u></u>

The notes are an integral part of these financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$396 405	\$5 575 917
Short-term investments (Note 3)	4 000 000	
Accounts receivable	3 579 863	2 369 973
Gouvernement du Québec subsidy receivable, without interest (pay equity)	327 072	145 283
Work under way	1 625 876	1 122 890
Prepaid expenses	398 814	403 858
	<u>10 328 030</u>	<u>9 617 921</u>
Capital assets (Note 4)	794 242	719 584
Intangible assets (Note 5)	<u>1 304 715</u>	<u>2 120 842</u>
	<u>\$12 426 987</u>	<u>\$12 458 347</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$919 058	\$628 550
Deferred revenue	4 991 527	4 851 753
Vacation pay owing to employees	1 762 634	1 713 944
	<u>7 673 219</u>	<u>7 194 247</u>
Deferred subsidy	759 088	1 223 121
Provision for sick leave (Note 7)	<u>3 968 759</u>	<u>3 535 121</u>
	12 401 066	11 952 489
CUMULATED SURPLUS	<u>25 921</u>	<u>505 858</u>
	<u>\$12 426 987</u>	<u>\$12 458 347</u>
COMMITMENTS (Note 9)		

The notes are an integral part of these financial statements.

Yvon Fortin
Director General,
Institut de la statistique du Québec

INSTITUT DE LA STATISTIQUE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenses	\$(479 937)	\$258 343
Adjustments for:		
Amortization of capital assets	256 944	388 164
Amortization of intangible assets	850 993	1 013 458
Increase in provision for sick leave	433 638	184 254
	<u>1 061 638</u>	<u>1 844 219</u>
Change in non-cash elements related to operations		
Increase in accounts receivable	(1 209 890)	(562 134)
Increase in work in progress	(502 986)	(729 790)
Decrease (increase) in prepaid expenses	5 044	(205 643)
Decrease (increase) in amounts receivable from the Gouvernement du Québec	(181 789)	179 977
Increase (decrease) in accounts payable and accrued liabilities	290 508	(387 864)
Increase in deferred revenue	139 774	147 867
Increase (decrease) in vacation pay owing to employees	48 690	(30 634)
Decrease in deferred subsidy	<u>(464 033)</u>	<u>(464 033)</u>
Cash flows from operating activities	<u>(813 044)</u>	<u>(208 035)</u>
INVESTMENT ACTIVITIES		
Acquisitions of investments	(4 000 000)	
Acquisitions of capital assets	(331 602)	(227 914)
Acquisitions intangible assets	<u>(34 866)</u>	<u>(24 528)</u>
Cash flows for investment activities:	<u>(4 366 468)</u>	<u>(252 442)</u>
VARIATION IN CASH AND CASH EQUIVALENTS	(5 179 512)	(460 477)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>5 575 917</u>	<u>6 036 394</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>\$396 405</u></u>	<u><u>\$5 575 917</u></u>

The notes are an integral part of these financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS
 for the year ended March 31, 2007

1. CONSTITUTION AND PURPOSE

The Institut de la statistique du Québec was established by the Act respecting the Institut de la statistique du Québec (R.S.Q., c. I-13.011) to supply reliable, objective statistical information on the situation in Québec with regard to all aspects of Québec society for which such information is relevant.

2. ACCOUNTING POLICIES
Cash and cash equivalents

It is the Institut's policy to present petty cash and bank balances minus outstanding cheques, where applicable under cash and cash equivalents.

Short-term investments

Short-term investments are posted at cost.

Use of estimates

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

Revenue reporting

Revenues from service delivery are posted in accordance with the proportional performance method. Work in progress includes fees and disbursements not yet invoiced to clients at net realization value. Deferred revenues comprise work invoiced in advance.

Capital assets

Capital assets are recorded at acquisition cost and amortized over their service lives in accordance with the straight-line method and the following rates:

	<u>Rate</u>
Leasehold improvements	20%
Furniture	20%
Equipment	33 1/3%
Computer equipment	25% *
Telephone system	33 1/3%

* In the past, computer equipment was amortized in accordance with the straight-line method over its service life, at 33 1/3%.

Intangible assets

Intangible assets, comprising software and computer systems, are recorded at cost and amortized over their service life in accordance with 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.

	<u>Rate</u>
Computer development	20%
Software	25% *

* In the past, software was amortized in accordance with the straight-line method over its service life, at 33 1/3%.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007

2. ACCOUNTING POLICIES (cont'd)
Pension plans

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

Subsidy reporting

The Gouvernement du Québec subsidy for the acquisition of capital assets is reported as a deferred subsidy and posted to operations using the same method and amortization rates as subsidized intangible assets.

3. SHORT-TERM INVESTMENTS

Banker's acceptances bear interest at rates varying from 4.29% to 4.36% and mature between April 2007 and February 2008.

4. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$630 710	\$364 313	\$266 397
Furniture	347 921	342 110	5 811
Equipment	40 379	40 089	290
Computer equipment	1 756 509	1 234 765	521 744
Telephone system	236 822	236 822	
	<u>\$3 012 341</u>	<u>\$2 218 099</u>	<u>\$794 242</u>
			<u>\$719 584</u>

5. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Computer development	\$5 052 413	\$3 769 870	\$1 282 543
Software	105 126	82 954	22 172
	<u>\$5 157 539</u>	<u>\$3 852 824</u>	<u>\$1 304 715</u>
			<u>\$2 120 842</u>

6. 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, 2007, no advance had been contracted.

7. FUTURE FRINGE BENEFITS
Pension plans

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

INSTITUT DE LA STATISTIQUE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 for the year closed March 31, 2007

7. FUTURE FRINGE BENEFITS (cont'd)
Pension plans (cont'd)

The Institut's contributions charged to the year-end statement total \$807 647 (2006: \$731 005). Its liability towards the Government plans is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$3 535 121	\$3 350 867
Annual expenses	1 204 937	747 672
Benefits paid during the year	<u>(771 299)</u>	<u>(563 418)</u>
Balance, end of year	<u>\$3 968 759</u>	<u>\$3 535 121</u>

8. FINANCIAL INSTRUMENTS

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

9. COMMITMENTS

Under a partnership agreement for funding the longitudinal study of Québec children's development (ELDEQ), the Institut de la Statistique du Québec commits to making a total initial financial contribution of \$2 400 000 beginning in 2004, i.e. \$300 000 annually until April 2011. The balance of this commitment as at March 31, 2007 was \$1 500 000.

Under a partnership agreement on operation of the Observatoire de la culture et des communications du Québec (OCCQ), the Institut de la Statistique du Québec commits to making a total initial financial contribution of \$2 368 527 over 3 years, i.e. \$789 509 annually until April 2008. The balance of this commitment as at March 31, 2007 was \$1 579 018.

10. RELATED PARTY TRANSACTIONS

Transactions with jointly-controlled entities break down as follows:

	2007	2006
Services rendered	\$7 942 874	\$8 400 631
Accounts receivable	2 981 574	1 950 095
Work in progress	1 044 731	808 307
Prepaid expenses	147 526	135 084
Accounts payable and accrued liabilities	39 642	46 302
Deferred revenue	4 761 238	4 675 682

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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 DE LA STATISTIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

The Institut de la statistique du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Institut's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Yvon Fortin
Director General of the Institut de la statistique du Québec

Québec, May 16, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de la statistique du Québec as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institut as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 16, 2007

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
(R.S.Q., c. I-13.02)

STATEMENT OF OPERATIONS
for the year ended June 30, 2006

	2006	2005 (Note 3)
REVENUES		
Gouvernement du Québec subsidy (Note 4)	\$23 254 446	\$20 669 630
Retraining, vocational upgrading and customized training	988 219	819 172
Regular instruction	457 758	403 508
Food services	2 187 624	1 321 441
Lodging	1 073 717	384 358
Interest on investments	298 224	255 657
Professional services	762 517	805 004
Other revenues	993 706	472 649
	<u>30 016 211</u>	<u>25 131 419</u>
EXPENSES		
Salaries and fringe benefits	14 612 447	12 780 987
Education and administrative supplies	2 730 138	2 431 148
Maintenance, repairs and public services	1 416 497	1 208 555
Ancillary services	1 759 767	1 787 637
Property and other taxes	1 334 264	1 249 243
Instructors, lecturers and student assistance	1 090 362	1 072 845
Communications and travelling	518 786	451 068
Loss on write-off of capital assets	3 650	29 001
Other administrative expenses	409 400	303 823
Interest on the long-term debt	1 980 339	379 999
Other financial expenses	63 566	37 430
Amortization of capital assets	3 971 151	3 167 292
	<u>29 890 367</u>	<u>24 899 028</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$125 844</u>	<u>\$232 391</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
SURPLUS
 for the year ended June 30, 2006

	<u>2006</u>	<u>2005</u>
SURPLUS, BEGINNING OF YEAR		
Previously established balance	\$1 016 576	\$1 159 371
Adjustment :		
Posting to results of operating subsidy used to acquire capital assets	<u>1 055 309</u>	<u>680 123</u>
Adjusted balance	2 071 885	1 839 494
Excess of revenues over expenses	<u>125 844</u>	<u>232 391</u>
SURPLUS, END OF YEAR	2 197 729	2 071 885
Minus:		
Appropriated surplus (Note 5)	<u>1 819 000</u>	<u> </u>
UNAPPROPRIATED SURPLUS END OF YEAR	<u>\$378 729</u>	<u>\$2 071 885</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

BALANCE SHEET
as at June 30, 2006

	2006	2005 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$3 266 651	\$2 033 802
Short-term investments	7 310 764	
Accounts receivable and accrued interest (Note 6)	582 792	665 164
Inventory (Note 7)	189 375	227 250
Prepaid expenses	845 807	828 325
Gouvernement du Québec subsidy receivable	1 642 597	2 221 756
	<u>13 837 986</u>	<u>5 976 297</u>
Loan to the ITHQ Fondation (Note 16)	25 000	50 000
Gouvernement du Québec subsidy receivable	36 032 947	36 825 544
Investments, at cost (Note 8)	1 399 717	1 502 726
Capital assets (Note 9)	<u>39 613 433</u>	<u>42 501 036</u>
	<u>\$90 909 083</u>	<u>\$86 855 603</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$3 522 816	\$3 754 739
Prepaid subsidies	6 923 065	419 059
Accrued expenses related to capital assets	850 000	
Portion of the long-term debt maturing in next fiscal year (Note 12)	792 597	524 456
	<u>12 088 478</u>	<u>4 698 254</u>
Deferred subsidies for capital assets (Note 10)	37 380 941	40 092 799
Provision for sick leave (Note 11)	1 522 761	1 480 894
Long-term debt (Note 12)	<u>36 032 947</u>	<u>36 825 544</u>
	<u>87 025 127</u>	<u>83 097 491</u>
EQUITY		
Gouvernement du Québec contribution	1 686 227	1 686 227
Appropriated surplus (Notes 3 and 5)	1 819 000	
Unappropriated surplus	378 729	2 071 885
	<u>3 883 956</u>	<u>3 758 112</u>
	<u>\$90 909 083</u>	<u>\$86 855 603</u>

On behalf of the Board of Directors,
Raymond Larivée, President
Robert Gagnon, Vice-President and Chairman of the Auditing Committee

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended June 30, 2006

	2006	2005 (Note 3)
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$125 844	\$232 391
Adjustments for:		
Loss on write-off of capital assets	3 650	29 001
Amortization of capital assets	3 971 151	3 167 292
Amortization of deferred subsidies for capital assets	(3 600 915)	(2 830 543)
Amortization of premiums on purchase of investments	1 991	898
Change in provision for sick leave	41 867	(25 811)
	543 588	573 228
Change in non-cash items related to operations (Note 13)	9 485 661	(27 012 335)
Cash flows related to operating activities	10 029 249	(26 439 107)
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(1 087 198)	(17 553 151)
Sale of long-term investments	101 018	
Acquisition of long-term investments		(433 193)
Decrease (increase) in loan to ITHQ Fondation	25 000	(75 000)
Cash flows related to investment activities	(961 180)	(18 061 344)
FINANCING ACTIVITIES		
Increase in Gouvernement du Québec contribution		151 270
Long-term debt transfer		37 350 000
Long-term debt repayment	(524 456)	
Cash flows related to financing activities	(524 456)	37 501 270
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *	8 543 613	(6 999 181)
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	2 033 802	9 032 983
CASH AND CASH EQUIVALENTS, END OF YEAR	\$10 577 415	\$2 033 802
Interest paid during the year	\$2 215 893	

* Cash and cash equivalents comprise cash and short-term investments.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

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

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated in accordance with the first in, first out (FIFO) method.

Capital assets

Capital assets, including projects under way, are recorded at cost and amortized over their estimated service life in accordance with the straight-line method at the following annual rates:

Capital assets	
Building	4%
Permanent leasehold improvements	10%
Kitchen equipment and technical material	10%
Computer equipment	20%
Rolling stock	25%
Intangible assets	
Software	20%

Subsidy income reporting

Subsidies receivable for capital assets are recorded in the fiscal year in which the Institut obtained the funding creating the entitlement to these subsidies or during which the work was done.

Subsidies for the acquisition of amortizable capital assets are posted to revenues using the same method and rates as those used to amortize the capital assets to which they were related.

Operating subsidies are posted to revenues when they are received or receivable.

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements.

Investments

Short-term investments are recorded at the lesser of cost or market value. Long-term investments are recorded at cost.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006

2. ACCOUNTING POLICIES (cont'd)
Pension plans

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

Cash and cash equivalents

It is the Institut's entity's policy to present bank balances and short-term investments that are easily convertible in the short term into an amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. CHANGE IN ACCOUNTING POLICY

This fiscal year, in keeping with the Gouvernement du Québec order-in-council governing its funding, the Institut posted its entire operating subsidy to results. In the past, the portion of this subsidy used or slated for the acquisition of amortizable capital assets was posted to liabilities and transferred to results for the fiscal year at the same rate as the amortization of the capital assets acquired using this subsidy. Applied retroactively, this change increases (decreases) the following financial statement items:

	2006	2005
Revenues and expenses		
Excess of revenues over expenses	\$306 661	\$375 186
Balance sheet		
Liabilities		
Prepaid subsidies	(621 357)	(301 279)
Deferred subsidies for capital assets	(740 613)	(754 030)
Assets		
Surplus	1 361 970	1 055 309

4. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2006	2005
Operations	\$17 696 092	\$17 491 287
Interest on the long-term debt	1 985 338	375 000
Amortization of deferred subsidies for capital assets	3 573 016	2 803 343
	<u>\$23 254 446</u>	<u>\$20 669 630</u>

5. APPROPRIATED SURPLUS

A total of \$1 819 000 was appropriated to absorb amortization charges of \$1 198 000 for capital assets acquired from the Working Capital Fund and \$621 000 was reserved for maintaining assets and acquiring future capital assets.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006**6. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST**

	2006	2005
Tax receivable	\$175 807	\$334
Retraining, vocational upgrading and customized education	185 340	329 062
Lodging and food services	55 661	191 497
Accrued interest on investments	111 388	13 293
ITHQ Fondation (Note 16)	25 951	32 176
Other	28 645	98 802
	<u>\$582 792</u>	<u>\$665 164</u>

7. INVENTORY

	2006	2005
Kitchen and restaurant supplies	\$9 155	\$10 951
Food and beverages	86 661	119 943
Maintenance supplies and tools	93 559	96 356
	<u>\$189 375</u>	<u>\$227 250</u>

8. INVESTMENTS

Long-term investments comprise Gouvernement du Québec, municipal and school board bonds bearing interest at rates varying from 2.8% to 7.8% and maturing between 2008 and 2012.

9. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Land	\$795 900		\$795 900	\$795 900
Building	26 793 048	\$7 732 817	19 060 231	19 241 754
Permanent leasehold improvements *	19 572 561	6 647 504	12 925 057	14 775 188
Kitchen equipment and technical material	9 033 406	3 132 385	5 901 021	6 612 367
Computer equipment	1 270 376	746 565	523 811	649 237
Rolling stock	24 613	24 613		
Works of art	238 600		238 600	238 600
	<u>57 728 504</u>	<u>18 283 884</u>	<u>39 444 620</u>	<u>42 313 046</u>
Intangible assets				
Software	<u>376 472</u>	<u>207 659</u>	<u>168 813</u>	<u>187 990</u>
	<u>\$58 104 976</u>	<u>\$18 491 543</u>	<u>\$39 613 433</u>	<u>\$42 501 036</u>

* Capital assets include unamortized projects in progress for \$850 000.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006

10. DEFERRED SUBSIDIES FOR CAPITAL ASSETS

	2006	2005
Gouvernement du Québec		
Balance, beginning of year	\$40 025 899	\$26 213 431
Gouvernement du Québec subsidy	889 057	16 615 811
Amortization for the fiscal year	<u>(3 573 715)</u>	<u>(2 803 343)</u>
Balance, end of year	<u>37 341 241</u>	<u>40 025 899</u>
Other		
Balance, beginning of year	66 900	94 100
Amortization for the fiscal year	<u>(27 200)</u>	<u>(27 200)</u>
Balance, end of year	<u>39 700</u>	<u>66 900</u>
	<u><u>\$37 380 941</u></u>	<u><u>\$40 092 799</u></u>

11. FRINGE BENEFITS**Pension plans**

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

The Institut's contributions charged to the year total \$571 945 (2005: \$460 616). This amount constitutes the Institut's obligations to these plans.

	2006	2005
Provision for vacation time *		
Balance, beginning of year	\$1 246 586	\$1 046 916
Annual expenses	1 521 940	1 458 637
Benefits paid during the year	<u>(1 405 819)</u>	<u>(1 258 967)</u>
Balance, end of year	<u>1 362 707</u>	<u>1 246 586</u>
Provision for sick leave		
Balance, beginning of year	1 480 894	1 506 705
Annual expenses	588 810	526 082
Benefits paid during the year	<u>(546 943)</u>	<u>(551 893)</u>
Balance, end of year	<u>1 522 761</u>	<u>1 480 894</u>
	<u><u>\$2 885 468</u></u>	<u><u>\$2 727 480</u></u>

* Included in the item "Accounts payable and accrued liabilities".

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 June 30, 2006

12. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
Borrowing from the Gouvernement du Québec Financing Fund, maturing on June 3, 2030, bearing interest at a rate of 5.258%, repayable in biannual payments of \$1 370 175, including principal and interest	\$36 825 544	\$37 350 000
Payments due within one year	<u>(792 597)</u>	<u>(524 456)</u>
	<u><u>\$36 032 947</u></u>	<u><u>\$36 825 544</u></u>

Payments of principal to be made over the next five fiscal years break down as:

2007	\$792 597
2008	834 819
2009	879 291
2010	926 132
2011	975 468

13. CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

	<u>2006</u>	<u>2005</u>
Decrease (increase) in accounts receivable and accrued interest	\$82 372	\$(191 226)
Decrease (increase) in inventory	37 875	(10 247)
(Increase) in prepaid expenses	(17 482)	(291 718)
Variation in Gouvernement du Québec subsidies receivable and/or collected in advance	7 875 762	(24 250 814)
(Increase) decrease in accounts payable and accrued liabilities	(231 923)	1 530 694
Increase (decrease) in expenses for capital assets	850 000	(20 414 835)
Increase in deferred subsidies for capital assets	<u>889 057</u>	<u>16 615 811</u>
	<u><u>\$9 485 661</u></u>	<u><u>\$(27 012 335)</u></u>

14. PAY EQUITY

As at the date of the financial statements, the Institut was unable to assess the amount it would have to pay out under the Pay Equity Act of November 21, 1996, given that the work in this regard is still in progress. Consequently, no amount was posted in the financial statements.

It will receive an amount for this disbursement from the Conseil du Trésor.

15. FINANCIAL INSTRUMENTS

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

The fair value of long-term investments is \$1 417 132 (2005: \$1 593 220). The fair value of the Gouvernement du Québec subsidy receivable cannot be estimated given the lack of a market for this type of instrument.

The fair value of the long-term debt totalling \$36 825 544 as at June 30, 2006 (2005: \$37 350 000), was determined at \$37 637 463 \$ (2005: \$37 350 000) using the market rate at this date for discounting cash flows.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2006

16. FONDATION DE L'INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

Fiscally speaking, the Fondation de l'Institut de tourisme et d'hôtellerie du Québec, created on February 3, 2003 under Part III of the Québec Companies Act, is a non-profit organization. Its activities began in July 2003 and its mission consists in collecting funds to support the Institut's students through bursaries and grant the Institut donations for various projects such as food safety research and training programs, creation of a centre for sensory analysis, modernization of the research centre and construction of an amphitheatre. The Fondation's Board of Directors is autonomous.

To facilitate the Fondation's start-up, the Institut gave it free access to offices and other available equipment and offered it administrative support services considered minor by management.

Further, during the fiscal year, the Institut invoiced the Fondation for products and services in the amount of \$17 893 (2005: \$15 951), \$951 (2005: \$7 176) of which are included in accounts receivable at June 30, 2006.

	<u>2006</u>	<u>2005</u>
Unguaranteed loan, interest-free, repayable in annual instalments of \$25 000 and maturing in 2008	\$50 000	\$75 000
Portion maturing next fiscal year	<u>(25 000)</u>	<u>(25 000)</u>
	<u>\$25 000</u>	<u>\$50 000</u>

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

18. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

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

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

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

Lucille Daoust
Director General

Julien Girard, CGA, MAP
Head of Financial Resources
and Procurement

Montréal, August 24, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de tourisme et d'hôtellerie du Québec as at June 30, 2006 and the statements of revenues, expenses and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at June 30, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, August 24, 2006

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC
(R.S.Q., c. I-13.1.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007			2006		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
REVENUES						
Gouvernement du Québec subsidies	\$29 819 334	\$13 078 335	\$42 897 669	\$27 471 794	\$11 685 777	\$39 157 571
Government of Canada subsidies	1 200	2 245 789	2 246 989	1 200	1 101 781	1 102 981
Sale of services	1 169 681	1 981 448	3 151 129	981 841	2 231 743	3 213 584
Other revenue	51 779	2 975 229	3 027 008	89 794	1 522 748	1 612 542
Amortization of deferred contributions for capital assets		1 005 485	1 005 485		822 484	822 484
Amortization of deferred contributions for intangible assets		274 763	274 763		243 343	243 343
Gains (loss) on sale of capital assets	(9 249)		(9 249)	16 200		16 200
Interest	33 239	424 600	457 839	46 857	403 694	450 551
Amounts carried forward	<u>\$31 065 984</u>	<u>\$21 985 649</u>	<u>\$53 051 633</u>	<u>\$28 607 686</u>	<u>\$18 011 570</u>	<u>\$46 619 256</u>

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2007

	2007			2006		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
Amounts brought forward	\$31 065 984	\$21 985 649	\$53 051 633	\$28 607 686	\$18 011 570	\$46 619 256
EXPENSES						
Salaries and fringe benefits (Note 4)	18 856 772	9 833 097	28 689 869	17 583 214	7 658 793	25 242 007
Professional and administrative services	2 436 673	5 179 545	7 616 218	1 861 280	3 019 544	4 880 824
Medical and laboratory supplies	1 700 317	1 880 366	3 580 683	1 594 142	2 231 278	3 825 420
Premises	4 326 601	25 761	4 352 362	4 183 237	974	4 184 211
Amortization of capital assets	1 638 365	1 005 485	2 643 850	1 376 696	822 484	2 199 180
Amortization of intangible assets	61 048	274 763	335 811	36 068	243 343	279 411
Travel expenses	629 967	835 057	1 465 024	544 398	452 569	996 967
Interest on long-term debt	604 544	6 984	611 528	596 530		596 530
Office expenses	435 190	225 948	661 138	398 456	197 104	595 560
Stationery and printing	123 210	441 689	564 899	123 694	363 662	487 356
Committee operating expenses	77 148	76 914	154 062	53 489	33 206	86 695
Maintenance and repairs	624 404	202 264	826 668	333 008	171 593	504 601
Outside training organization expenses	875	559 845	560 720	15 199	349 501	364 700
In-house training	163 665	57 666	221 331	177 802	65 357	243 159
Telecommunications	282 002	14 118	296 120	264 988	17 841	282 829
Documentation	94 218	7 228	101 446	145 933	18 435	164 368
Automotive equipment	47 598	47 673	95 271	47 249	29 548	76 797
Equipment rental	98 745	1 060	99 805	81 005	59 508	140 513
Bad debts	15 428	18 588	34 016	14 307	23 657	37 964
Insurance	21 390	96 425	117 815			
Bank charges	14 975	3 832	18 807	12 657		12 657
General expenses (Note 5)	(970 000)	970 000		(650 000)	650 000	
	31 283 135	21 764 308	53 047 443	28 793 352	16 408 397	45 201 749
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$(217 151)</u>	<u>\$221 341</u>	<u>\$4 190</u>	<u>\$(185 666)</u>	<u>\$1 603 173</u>	<u>\$1 417 507</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2007

		2007		2006
	Regular activities	Special projects	Total	Total
UNAPPROPRIATED CUMULATED SURPLUS				
Balance, beginning of year	\$284 764	\$44 271	\$329 035	\$388 495
Excess of revenues over expenses	16 217	776 192	792 409	1 552 056
Transfer to appropriated cumulated surplus		(350 000)	(350 000)	(1 611 516)
Transfer of appropriated cumulated surplus		8 385	8 385	
Balance, end of year	300 981	478 848	779 829	329 035
APPROPRIATED CUMULATED SURPLUS				
Balance, beginning of year	1 469 698	2 006 062	3 475 760	1 998 793
Annual expenses for appropriated surplus	(233 368)	(554 851)	(788 219)	(134 549)
Transfer of unappropriated cumulated surplus	350 000		350 000	1 611 516
Transfer to unappropriated cumulated surplus		(8 385)	(8 385)	
Balance, end of year (Note 3)	1 586 330	1 442 826	3 029 156	3 475 760
TOTAL	\$1 887 311	\$1 921 674	\$3 808 985	\$3 804 795

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash	\$15 717 307	\$14 360 038
Accounts receivable (Note 6)	1 329 225	1 509 133
Subsidies receivable (Note 7)	17 505 554	15 265 395
Long-term receivable encashable next fiscal year (Notes 8 and 13)	62 018	
Prepaid expenses	969 622	602 167
Supply stock - at cost	103 950	139 561
	<u>35 687 676</u>	<u>31 876 294</u>
Subsidies receivable (Note 7)	4 033 680	5 770 209
Long-term receivable (Notes 8 and 13)	640 752	
Capital assets (Note 9)	17 869 335	16 146 925
Intangible assets (Note 10)	392 216	585 108
	<u>\$58 623 659</u>	<u>\$54 378 536</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$9 156 127	\$7 615 330
Deferred proceeds (Note 12)	23 970 397	21 164 017
Long-term debt maturing next fiscal year (Note 13)	1 779 605	1 926 966
	<u>34 906 129</u>	<u>30 706 313</u>
Deferred proceeds (Note 12)	4 455 342	5 770 209
Long-term debt (Note 13)	9 406 160	8 297 011
Provision for sick leave (Note 15)	618 019	627 822
Deferred contributions for capital assets	5 170 446	4 690 013
Deferred contributions for intangible assets	258 578	482 373
	<u>54 814 674</u>	<u>50 573 741</u>
CUMULATED SURPLUS		
Unappropriated cumulated surplus	779 829	329 035
Appropriated cumulated surplus	3 029 156	3 475 760
	<u>3 808 985</u>	<u>3 804 795</u>
	<u>\$58 623 659</u>	<u>\$54 378 536</u>
COMMITMENTS (Note 17)		

The notes are an integral part of the financial statements.

Richard Massé
W. Robert Laurier

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$4 190	\$1 417 507
Effect of items not affecting cash flows:		
Amortization of capital assets	2 643 850	2 199 180
Amortization of intangible assets	335 811	279 411
Amortization of deferred contributions for capital assets	(1 005 485)	(822 484)
Amortization of deferred contributions for intangible assets	(274 763)	(243 343)
Loss (gain) on sale of capital assets	9 249	(16 200)
	<u>1 712 852</u>	<u>2 814 071</u>
Change in non-cash items related to operations		
Decrease (increase) of accounts receivable	179 908	(546 126)
Increase in prepaid expenses	(367 455)	(78 020)
Decrease (increase) in supply stocks	35 611	(1 888)
Increase in subsidies receivable	(503 630)	(5 764 957)
Increase in accounts payable and accrued liabilities (Note 11)	1 888 998	414 214
Increase (decrease) in provision for sick leave	(9 803)	29 149
Increase in deferred revenue	1 491 513	6 542 810
	<u>2 715 142</u>	<u>595 182</u>
Cash flows from operating activities	<u>4 427 994</u>	<u>3 409 253</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets (Note 9)	(4 725 023)	(2 831 757)
Proceeds from sale of capital assets	4 500	16 200
Acquisition of intangible assets (Note 10)	(146 106)	(240 632)
Long-term receivable	(761 465)	
Encashment of long-term debt	58 695	234 034
Cash flows for investment activities	<u>(5 569 399)</u>	<u>(2 822 155)</u>
FINANCING ACTIVITIES		
Long-term debt	2 001 589	
Long-term debt repayment	(1 039 801)	(1 222 174)
Deferred contributions for capital assets	1 485 918	2 519 548
Deferred contributions for intangible assets	50 968	172 515
Cash flows from financing activities	<u>2 498 674</u>	<u>1 469 889</u>
INCREASE OF CASH	<u>1 357 269</u>	<u>2 056 987</u>
CASH, BEGINNING OF YEAR	<u>14 360 038</u>	<u>12 303 051</u>
CASH, END OF YEAR	<u><u>\$15 717 307</u></u>	<u><u>\$14 360 038</u></u>
ADDITIONAL INFORMATION		
Interest paid	<u>\$611 528</u>	<u>\$596 530</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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 Agences de la santé et des services sociaux set up under the Act respecting health services and social services (R.S.Q., c. S-4.2) in carrying out their public health mandate.

2. ACCOUNTING POLICIES

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

Capital assets

Capital assets are recorded at cost and amortized over their service lives in accordance with the straight-line method and 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	20%

Major fit-ups are amortized over a maximum of 15 years in accordance with the annuity method (growing endowment) and the corresponding debt rate.

Intangible assets

Intangible assets, comprising software and licences, are recorded at cost and amortized over their expected service life, i.e. 3 years, in accordance with the straight-line method and rates of 20% and 33 1/3%.

Deferred contributions for capital assets

Contributions received for the acquisition of or in the form of amortizable capital assets are deferred and transferred to revenues using the same methods and rates as those used to amortize the capital assets to which they pertain.

Deferred contributions for intangible assets

Contributions received for acquisition of or in the form of amortizable intangible assets are deferred and transferred to revenues using the same method and rates as those used to amortize the intangible assets to which they pertain.

Revenue reporting

Subsidies for special projects are posted to results in accordance with work progress method. Certain subsidies receivable are conditional on the government's approval of the funds.

Revenues from service delivery are posted when the following conditions have been fulfilled:

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

Deferred revenues comprise the amounts received and receivable for services not rendered in keeping with contractual agreements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)

Pension plans

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

3. APPROPRIATED CUMULATED SURPLUS

The appropriated cumulated surplus consists of the appropriated cumulated surplus for regular activities and the appropriated cumulated surplus for special projects.

For the appropriated cumulated surplus for regular activities, Institut management has decided, in keeping with the policy adopted by its Board of Directors, to use part of its unappropriated cumulated surplus to acquire specialized laboratory equipment and to physically organize new offices in Québec and downtown Montréal after obtaining authorization from the Québec Minister of Health and Social Services. The balance of the appropriated cumulated surplus as at March 31, 2007 in the amount of \$1 586 330 will be used to help finance these capital assets.

The appropriated cumulated surplus for special projects in the amount of \$1 442 826 as at March 31, 2007 will be used, in keeping with the policy adopted by the Board of Directors, to help finance authorized projects related to scientific innovation and special projects directly related to the Institut's mission.

4. SALARIES AND FRINGE BENEFITS

Salaries and fringe benefits do not include doctors' wages, which are paid by the Régie de l'assurance maladie du Québec (RAMQ).

5. GENERAL EXPENSES

General expenses charged to special projects and recovery for regular activities represent the estimated value of the expenses for support services offered in the context of the Institut's different special projects.

6. ACCOUNTS RECEIVABLE

	2007	2006
Gouvernement du Québec	\$717 196	\$431 652
Government of Canada	6 465	68 855
Other	605 564	1 008 626
	<u>\$1 329 225</u>	<u>\$1 509 133</u>

7. SUBSIDIES RECEIVABLE

	2007	2006
Gouvernement du Québec	\$15 067 196	\$14 188 164
Government of Canada	4 111 717	5 202 596
Other	2 360 321	1 644 844
Amounts carried forward	<u>\$21 539 234</u>	<u>\$21 035 604</u>

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**7. SUBSIDIES RECEIVABLE**

	2007	2006
Amounts brought forward	<u>\$21 539 234</u>	<u>\$21 035 604</u>
Minus: portion maturing next fiscal year		
Gouvernement du Québec	(13 329 561)	(12 117 545)
Government of Canada	(2 447 717)	(2 202 596)
Other	<u>(1 728 276)</u>	<u>(945 254)</u>
	<u>(17 505 554)</u>	<u>(15 265 395)</u>
	<u><u>\$4 033 680</u></u>	<u><u>\$5 770 209</u></u>

8. LONG-TERM RECEIVABLE

Mandated by the Commission de la santé et de la sécurité du travail (CSST) to acquire and operate a mobile for detecting occupational illnesses, the Institut has a related long-term receivable.

	2007	2006
Long-term receivable at fixed rate of 5.52%, encashable in monthly instalments of \$8 271, including principal and interest, maturing in January 2017	\$702 770	
Minus: portion maturing next fiscal year	<u>(62 018)</u>	
	<u><u>\$640 752</u></u>	

9. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Major fit-up	\$11 737 269	\$2 308 721	\$9 428 548	\$8 861 593
Specialized equipment	7 663 242	3 164 707	4 498 535	3 783 906
Computer equipment	5 229 648	3 504 332	1 725 316	1 743 945
Automotive equipment	1 445 321	524 106	921 215	839 458
Furnishings and equipment	2 819 321	1 587 213	1 232 108	824 373
Leasehold improvements	207 644	144 031	63 613	93 650
	\$29 102 445	\$11 233 110	\$17 869 335	\$16 146 925

Acquisitions totalled \$4 380 009 (2006: \$3 777 133), of which \$3 582 857 (2006: \$2 634 967) was disbursed during the fiscal year, with \$1 142 166 (2006: \$196 790) being disbursed for acquisitions dating from the previous fiscal year.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. INTANGIBLE ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Software and licences	<u>\$1 129 270</u>	<u>\$737 054</u>	<u>\$392 216</u>
			<u>\$585 108</u>

Acquisitions totalled \$142 919 (2006: \$253 074), of which \$133 664 (2006: \$240 632) was disbursed during the fiscal year, with \$12 442 (2006: \$0) being disbursed for acquisitions dating from the previous fiscal year.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Gouvernement du Québec	\$1 513 447	\$1 308 839
Other	7 642 680	6 306 491
	<u>\$9 156 127</u>	<u>\$7 615 330</u>

Accounts payable and accrued liabilities total \$8 349 720 (2006: \$6 460 722), costs for the acquisition of capital assets are \$797 152 (2006: \$1 142 166) and those for the acquisition of intangible assets totalled \$9 255 \$ (2006: \$12 442).

12. DEFERRED REVENUES

	2007	2006
Gouvernement du Québec	\$21 643 367	\$18 403 391
Government of Canada	4 213 824	5 838 852
Other	2 568 548	2 691 983
	<u>28 425 739</u>	<u>26 934 226</u>
Minus: portion maturing next fiscal year		
Gouvernement du Québec	(19 368 175)	(17 322 672)
Government of Canada	(2 713 824)	(2 838 852)
Other	(1 888 398)	(1 002 493)
	<u>(23 970 397)</u>	<u>(21 164 017)</u>
	<u>\$4 455 342</u>	<u>\$5 770 209</u>

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**13. LONG-TERM DEBT**

	2007	2006
Borrowings on notes		
Fixed rate of 5.45% (5.05% in 2006), repayable in monthly instalments of \$25 918 including principal and interest, maturing in March 2008	\$588 730	\$861 679
Fixed rate of 5.44% (3.95% in 2006), repayable in monthly instalments of \$9 010 including principal and interest, maturing in July 2007	416 583	500 705
Fixed rate of 5.52%, guaranteed by account receivable, repayable in monthly instalments of \$8 271 including principal and interest, maturing in January 2017	751 906	
Borrowings from the Société immobilière du Québec		
Fixed rate of 6.08% (6.08% in 2006), repayable in monthly instalments of \$52 582 including principal and interest, maturing in August 2017	4 814 157	5 141 563
Fixed rate of 6.08% (6.08% in 2006), repayable in monthly instalments of \$2 128 including principal and interest, maturing in June 2007	6 294	30 663
Fixed rate of 5.52% (5.52 % in 2006), repayable in monthly instalments of \$34 263 including principal and interest, maturing in August 2018	3 476 533	3 689 367
Fixed rate of 4.70%, repayable in monthly instalments of \$15 523 including capital and interest, maturing in May 2014	1 131 562	
	11 185 765	10 223 977
Minus: portion maturing next fiscal year	(1 779 605)	(1 926 966)
	<u>\$9 406 160</u>	<u>\$8 297 011</u>

The principal to be paid on the long-term debt over the coming five years breaks down as:

2008	\$1 779 605
2009	812 365
2010	859 319
2011	909 008
2012	961 591
2013 and thereafter	5 863 877

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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, 2007

15. FUTURE FRINGE BENEFITS
Pension plans

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

The Institut's contributions charged to the year-end statement total \$1 101 901 (2006: \$1 028 601). Its liability towards the Government plans is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$627 822	\$598 673
Annual expenses	733 685	674 121
Benefits paid during the year	(743 488)	(644 972)
Balance, end of year	<u>\$618 019</u>	<u>\$627 822</u>

The \$2 240 754 (2006: \$1 999 887) provision for vacation time is included in the item Accounts payable and accrued liabilities.

16. FINANCIAL INSTRUMENTS
Long-term receivable

At March 31, 2007, the fair value of the long-term receivable equals the book value, given the minimal change in the interest rate since the receivable was instituted.

Long-term debt

At March 31, 2007, the fair value of borrowings from the Société immobilière du Québec of \$9 428 546 was \$10 005 774, given the capitalization of cash flows at market rates for securities with similar terms and interest rates. The fair value of notes equals the book value, given that they mature in the short term and that the interest rate has varied little since these debts were incurred.

Other assets and liabilities

The fair value of cash, receivables, payables and accrued expenses equals their book value, given that they mature in the short term. The fair value of subsidies receivable of \$21 539 234 cannot be evaluated given the absence of a market for this type of financial instrument.

17. COMMITMENTS

At March 31, 2007, the Institut was committed to the Société immobilière du Québec for the relocation of one of its facilities. In January, a proposal for a borrowing to cover outfitting work was negotiated for a total of \$223 601. The borrowing bears interest at 4.69% and matures in September 2012. Repayment begins in September 2007.

As at March 31, 2007, the Institut also committed to the CHUQ's public health research unit to pay an amount not to exceed \$265 378 to carry out public health mandates. The commitment in whole must be paid by March 31, 2008.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

18. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Institut must assess its different job categories. On the date the financial statements were prepared, the Institut was unable to assess the amount it might have to pay, if applicable, given that this process was not yet completed. Consequently, no amount was posted in the financial statements.

19. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

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

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

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

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

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

Richard Massé, M.D.
President and Chief Executive Officer

Jean-Louis Coulombe, CMA
Director of Financial and Material Resources

Québec, May 25, 2007

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**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, 2007 and the statement of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institut as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year

For the Auditor General of Québec
France Alain, CA
Director, Financial Certification
Consulting Services

Québec, May 25, 2007

INVESTISSEMENT QUÉBEC
(R.S.Q., c. I-16.1)

CONSOLIDATED STATEMENT OF INCOME
for the year ended March 31,
(in thousands of dollars)

	2007	2006	2005
INTEREST INCOME			
Interest on loans	52 686	42 710	39 143
Interest on cash and temporary investments	1 145	648	197
Interest contributions from the Government of Québec	45 095	33 480	27 420
	<u>98 926</u>	<u>76 838</u>	<u>66 760</u>
Interest expense (Note 15)	<u>51 857</u>	<u>38 716</u>	<u>35 777</u>
NET INTEREST INCOME	<u>47 069</u>	<u>38 122</u>	<u>30 983</u>
OTHER INCOME			
Interest on notes receivable from the Government of Québec	95 215	79 056	54 345
Guarantee fees	22 073	19 696	14 636
Risk premiums			
Stock options (Note 16)	2 720	3 523	2 409
Share-in-income and lump-sum premiums	9 132	4 862	3 814
Commitment fees	6 599	12 151	6 613
Other income (Note 17)	14 905	144 405	26 984
	<u>150 644</u>	<u>263 693</u>	<u>108 801</u>
	<u>197 713</u>	<u>301 815</u>	<u>139 784</u>
PROVISION			
Provision for losses (Note 10)	(4 899)	235 888	165 742
Provision for losses recoverable from the Government of Québec (Note 10)	8 253	(228 234)	(146 542)
	<u>3 354</u>	<u>7 654</u>	<u>19 200</u>
NON-INTEREST EXPENSES			
Financial contributions (Note 18)	69 535	62 628	52 633
Financial contributions assumed by the Government of Québec (Note 18)	(19 666)	(25 162)	(31 665)
Fees to financial intermediaries	39 545	32 650	26 464
Administration expenses (Note 19)	47 639	43 350	40 276
Administration fees – Government of Québec			(21 946)
Other expenses (Note 20)	3 789	3 891	2 986
	<u>140 842</u>	<u>117 357</u>	<u>68 748</u>
NET INCOME	<u>53 517</u>	<u>176 804</u>	<u>51 836</u>

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

INVESTISSEMENT QUÉBEC

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
RETAINED EARNINGS, BEGINNING OF YEAR	422 924	246 120
NET INCOME	<u>53 517</u>	<u>176 804</u>
RESTATED EARNINGS, END OF YEAR	<u>476 441</u>	<u>422 924</u>

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

INVESTISSEMENT QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31,
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	9 440	
Temporary investments (Note 4)	17 492	9 608
Investments (Note 5)	2 655 603	2 285 867
Loans, less accumulated provision for losses (Notes 6 and 10)	770 827	737 395
Shares, less accumulated provision for losses (Notes 7 and 10)	307 263	303 739
Units, less accumulated provision for losses (Notes 8 and 10)	2 074	2 464
Accumulated provision for losses recoverable from the Government of Québec (Note 10)	637 625	736 154
Other assets (Note 11)	<u>110 828</u>	<u>109 370</u>
	<u><u>4 511 152</u></u>	<u><u>4 184 597</u></u>
LIABILITIES AND EQUITY		
LIABILITIES		
Bank overdraft		5 941
Short-term borrowings (Note 12)	58 000	101 900
Long-term borrowings (Note 13)	3 722 126	3 351 955
Due and accrued interest on borrowings from the Fonds de financement du gouvernement du Québec	18 904	15 374
Accumulated provision for losses on guarantees (Notes 9 and 10)	172 924	229 377
Other liabilities (Note 14)	<u>29 813</u>	<u>24 182</u>
	<u>4 001 767</u>	<u>3 728 729</u>
EQUITY		
Initial equity	32 944	32 944
Retained earnings	<u>476 441</u>	<u>422 924</u>
	<u>509 385</u>	<u>455 868</u>
	<u><u>4 511 152</u></u>	<u><u>4 184 597</u></u>
GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (Notes 9 and 10)	<u><u>2 276 569</u></u>	<u><u>2 152 918</u></u>

FINANCING AND INVESTMENT COMMITMENTS (Note 26)**OTHER COMMITMENTS (Note 27)****CONTINGENCIES (Note 30)**

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

For the Board of Directors,
Jacques Daoust, Chair of the Board
Léopold Beaulieu, Vice-Chair of the Board

INVESTISSEMENT QUÉBEC

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

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	53 517	176 804	51 836
Adjustments for:			
Amortization of issuance expenses on long-term borrowings	719	719	713
Amortization of premiums on long-term borrowings	(1 129)	(1 129)	(1 129)
Amortization of premiums and discounts on investments	(93 847)	(77 310)	(52 712)
Amortization of deferred fees to financial intermediaries	29 686	24 509	16 969
Gain on disposal of shares and units	(66)	(136 437)	(17 173)
Gain on disposal of investments	(1 338)	(1 165)	(887)
Change in unrealized loss in value of investments	2 608	515	
Unrealized foreign exchange loss (gain) on investments	(149)	284	629
Unrealized loss resulting from change in fair value of derivative financial instruments	1 062	5 973	25
Provision for losses	(4 899)	235 888	165 742
Provision for losses recoverable from the Government of Québec	8 253	(228 234)	(146 542)
Amortization of fixed assets and finite life intangible assets	864	800	859
Loss on disposal of fixed assets and finite life intangible assets			208
Share of income – Entity subject to significant influence, Canadair Québec Capital S.E.N.C.	53	9	
Changes in operating activities and liabilities (Note 21)	634	25 071	(51 843)
	<u>(4 032)</u>	<u>26 297</u>	<u>(33 305)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Net decrease (increase) in temporary investments with original maturities in excess of three months		397	(397)
Acquisition of investments	(551 935)	(584 410)	(740 816)
Disposal of investments	274 872	107 456	100 916
Net decrease (increase) in loans	9 069	(86 260)	7 968
Net decrease in shares	284	160 861	11 395
Net decrease (increase) in units	(46)	88	21 327
Premiums on derivative financial instruments		(5 386)	
Additions to fixed assets and finite life intangible assets	(1 405)	(673)	(688)
Deferred fees to financial intermediaries	(30 942)	(32 057)	(37 872)
	<u>(300 103)</u>	<u>(439 984)</u>	<u>(638 167)</u>
Amounts carried forward	<u>(304 135)</u>	<u>(413 687)</u>	<u>(671 472)</u>

INVESTISSEMENT QUÉBEC

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

	2007	2006	2005
Amounts brought forward	<u>(304 135)</u>	<u>(413 687)</u>	<u>(671 472)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in short-term borrowings	(43 900)	(134 000)	(135 000)
Long-term borrowings	587 300	567 067	821 200
Repayment of long-term borrowings	(216 000)	(24 000)	(13 200)
Deferred issuance expenses on long-term borrowings			(700)
	<u>327 400</u>	<u>409 067</u>	<u>672 300</u>
NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	23 265	(4 620)	828
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3 667</u>	<u>8 287</u>	<u>7 459</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>26 932</u></u>	<u><u>3 667</u></u>	<u><u>8 287</u></u>
CASH AND CASH EQUIVALENTS			
Cash	9 440		
Temporary investments	17 492	9 608	9 191
Bank overdraft		(5 941)	(904)
	<u><u>26 932</u></u>	<u><u>3 667</u></u>	<u><u>8 287</u></u>
ADDITIONAL INFORMATION			
Interest paid	<u><u>48 597</u></u>	<u><u>36 343</u></u>	<u><u>35 901</u></u>

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

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a legal person established in the public interest incorporated under and governed by the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1). Under section 2 of its incorporating act, the Corporation is an agent of the State and is therefore not subject to income tax in Québec or Canada.

Investissement Québec's mission is to promote the growth of investment in Québec and thereby contribute to economic development and job creation. The corporation centralizes and consolidates government initiatives to seek out, promote and support for investment. The Corporation strives to foster domestic investment and attract investors from outside Québec by promoting Québec as a prime location for investment. Investissement Québec participates in the growth of businesses by facilitating research and development and export activities, among others. The Corporation also seeks to retain current investment by supporting companies in Québec. Furthermore, the Corporation provides companies, government departments and agencies, and state-owned corporations with a host of technical services, particularly with regard to financial analysis, financing arrangements and portfolio management. Investissement Québec administers all financial assistance programs developed by the government with respect to investment. The Corporation also administers the Act respecting Québec business investment companies (R.S.Q., c. S-29.1) and performs any mandates entrusted to it by the government under sections 28 and 29 of its incorporating act. It uses its financing operations to support Québec businesses or companies setting up operations in Québec, mainly by granting them loans or guaranteeing their financial commitments with 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). Under Bill 68, approved by the National Assembly on December 13, 2005, Investissement Québec acquired the rights and assumes the obligations of the Société de développement de la Zone de commerce international de Montréal à Mirabel, which has been dissolved. Under Order in Council 1027-2006, dated November 8, 2006, Investissement Québec acquired the rights and assumed the obligations of Innovation-Papier (INNO-PAP), which has been dissolved.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec stipulates that the parent company shall formulate a strategic plan, which includes the operations of its subsidiaries, according to the form, content and intervals fixed by the Government of Québec. This plan was approved on September 22, 2004 (decree 878-2004) and ends on March 31, 2007. Under section 47 of the same Act, this plan shall continue in force, however, until a new strategic plan is approved. A new plan was pending approval as at March 31, 2007. Under the 2004-2007, business plan, the Government of Québec contributes to the Corporation's financing through the repayment of certain financial contributions and losses on certain financing operations, according to the terms and conditions of the programs or Orders in Council under which they were set up, by paying the Corporation interest contributions on certain financing operations for which it repays losses, as well as by paying it fees.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions, particularly in determining the fair value of investments. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Consolidation

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. All the assets, liabilities, revenues and expenses of the subsidiaries have been included in these consolidated financial statements. The inter-company balances and transactions have been eliminated.

IQ FIER inc., a wholly owned subsidiary, qualifies as an investment company within the meaning of Canadian Institute of Chartered Accountants Accounting Guideline No. 18, Investment Companies (AcG-18). Under this guideline, investments are measured at fair value, that is, the amount of the consideration that would be agreed upon, at the date of the financial statements, in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The realizable value of the investments could vary significantly in relation to the fair value subsequent to changes in market conditions. AcG-18 further sets out the circumstances under which a parent company owning an investment company must account for the investment company's investments at fair value. Investissement Québec is the parent company of said investment company and meets the criteria for preserving the fair value accounting treatment for investments adopted by IQ FIER inc.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash, temporary investments with original maturities of no later than three months and bank overdraft.

Investments

Notes receivable from the Government of Québec are carried at cost and discounts upon acquisition are charged to income until maturity using the real-interest method.

The units of limited partnerships and unlisted shares of companies acting as general partner are accounted for at fair value, which is based on the audited financial statements of these entities which are measured at fair value. However, under certain contractual agreements, if aggregate net annual income less aggregate net annual losses is positive at the end of the performance waiver period of each agreement, the Corporation waives its share. Accordingly, the fair value of investments takes this clause into account. Furthermore, at any time during the performance waiver period, the other limited partners have the option of purchasing units held by the Corporation at the initially paid price, plus 6% of annual performance since their acquisition. As of the third fiscal year following the performance waiver period, the other limited partners also hold a purchase option at a price equal to the higher of the fair value or the carrying amount.

Investments in entities subject to significant influence are accounted for using the equity method.

Other investments are carried at acquisition cost and, if necessary, discounts and premiums on acquisition of investments are charged to income on a straight-line basis until maturity.

Loans, Shares and Units

Loans (including accrued interest receivable), shares and units are carried 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 impaired. The reduction in the carrying amount then recognized and any subsequent changes are charged to the provision for losses.

When a loan for which losses are not repaid by the Government of Québec becomes impaired 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 presented as impaired loans and are recorded at fair value at the time of foreclosure. The reduction in the carrying amount is then recorded. Any subsequent reduction is charged to the provision for losses.

The carrying amount of loans for which losses are not repaid by the Government of Québec, 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 effective interest rate inherent in the loan. The reduction in the carrying amount resulting from 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 repaid by the Government of Québec are recorded at their carrying amount immediately after the loans have been restructured. The difference between the carrying amount of a loan prior to restructuring and the carrying amount of the resulting shares is applied to the provision for losses. Any subsequent decrease in the carrying amount 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.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Guarantees

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once approved by the Corporation. Disbursements are then applied to reduce the accumulated provision for losses on guarantees and the balance of guarantees 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 accounting policies applicable to loans, shares or units, as the case may be.

Accumulated Provision for Losses

The accumulated provision for losses on loans, shares, units and other receivables related to financing operations is presented on the Corporation's balance sheet, offset against the value of such assets. The accumulated provision for losses on loan guarantees is recorded as a liability on the balance sheet. In the Corporation's opinion, these provisions represent the most accurate possible estimate 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 includes insolvent clients, while two others refer to companies that are likely to become insolvent in the short term. All impaired loans are classified in one of these three 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 the security, 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 a turnaround is unlikely, the related financing operations are written off.

The other four risk categories comprise companies whose financial profile matches 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 recognized or deemed probable over the past three years.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or have special characteristics are subject to a specific analysis of the provision for losses, regardless of their risk category.

An overall provision is calculated for business start-up and re-start investment programs. This provision represents 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 inherent risks in the loan agreement, as well as the aforementioned insolvency risks..

Special class shares are non-participating, and have no dividends and no set redemption date. These shares are subject to a specific analysis of the provision for losses.

The accounts receivable related to financial operations involving insolvent companies or companies likely to become insolvent in the short term are subject to a specific analysis of the provision for losses.

Receivable from the Government of Québec

The Government of Québec contributes to the Corporation's financing by repaying certain financial contributions and losses on certain financing operations, by paying interest contributions on certain financing operations and by paying fees to the Corporation. The receivable balance for these contributions appears under the heading "Other Assets".

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

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

Fixed assets are accounted for at cost and amortized on a straight-line basis over their estimated useful lives from the date they are put into service using the following rates:

Computer equipment	33 1/3%
Office furniture	10%
Leasehold improvements	10%

Finite Life Intangible Assets

Software and information systems development are accounted for at cost and are tested for impairment whenever events or changes in circumstances indicate that their carrying amount might not be recoverable. Any excess in the carrying amount over the fair value is charged to income in the period in which the impairment is determined. They are amortized on a straight-line basis over their estimated useful lives from the date they are put into service using the following rates:

Software	33 1/3%
Information systems development	20%

Long-term Borrowing Issuance Expenses, Discounts and Premiums

Long-term borrowing issuance expenses, discounts and premiums are deferred and amortized on a straight-line basis over the term of the related borrowing. Deferred long-term borrowing issuance expenses are included in other assets. Deferred discounts and premiums are presented as a reduction of or increase in the borrowings with which they are associated.

Land Held for Decontamination Purposes

Land is valued at the lower of cost and net realizable value.

Interest Contributions from the Government of Québec

Interest contributions from the Government of Québec are related to low-yield or zero-yield financing operations or to financing operations whose losses are repaid by the Government of Québec, and generally represent the excess of the Corporation's average monthly borrowing cost over the yield of these operations.

Risk Premiums

When approving a financing operation, the Corporation may require a risk premium from the client company that varies according to the nature of the risk. Stock option premiums are derivative financial instrument and, as such, are accounted for at fair value. The resulting realized and unrealized gains are charged to income under "Risk Premiums – Stock Options". Share-in-income premiums are receivable and recorded no later than six months following the company's year-end. Lump-sum premiums are recorded when due according to the contract.

Stock options with a positive fair value are presented under "Other Assets".

Gains on disposal of shares acquired on the exercise of an option are presented in income under "Risk Premiums – Stock Options".

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Contributions

Financial contributions consist of non-repayable financial contributions and conditional repayable financial contributions.

Financial contributions are charged to income in the year in which the Corporation approved the disbursement. Financial contributions to Emploi-Québec are recognized in income in the year in which the corresponding expenditure was incurred by Emploi-Québec. Financial contributions to the Ministère de l'Immigration et des Communautés culturelles are charged to income in the year in which its share of the income generated by the investment is recognized. The contribution from the Government of Québec for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recognized in the same year.

Subsequent recoveries of conditional repayable financial contributions are recognized in income for the current year. The applicable amount repayable to the Government of Québec is also recorded in income for the current year.

Fees to Financial Intermediaries

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for soliciting immigrant investors, targeting companies for referral for non-repayable financial contributions and closing immigrant investor files.

Fees paid for soliciting immigrant investors and fees paid for targeting companies for referral are recorded once the financing operation has been accepted by the company. Fees paid for soliciting immigrant investors are deferred on a straight-line basis and charged to income over a period representing the term of the investments, that is, five years. Fees for closing immigrant investor files are recorded as files are closed.

Derivative Financial Instruments

In addition to stock options that are included in risk premiums, the Corporation holds other derivative instruments to manage the interest rate risk and exchange rate risk stemming from positions appearing in the balance sheet. These other financial instruments are recorded at fair value and the resulting gains or losses are applied to income as an adjustment to other income. Derivative financial instruments with a positive fair value appear in "Other Assets" under "Assets Related to Derivative Financial Instruments", while those with a negative fair value appear in "Other Liabilities" under "Liabilities Related to Derivative Financial Instruments".

Foreign Currency Translation

Monetary assets and liabilities and guarantees denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at balance sheet date. Income and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the transaction date. Exchange gains and losses are recognized in income.

Pension Plans

The Corporation contributes to government multiemployer defined benefit pension plans. However, these contributions are reported under the accounting standards for defined contribution plans, as the information available to the Corporation is insufficient for the application of defined benefit plan accounting.

The Corporation has also implemented an optional supplementary pension plan to pay retirement benefits to certain senior managers, over and above the benefits paid under the basic pension plan. The cost of the retirement benefits accumulated by these employees is determined by actuarial calculations using the defined benefit method prorated on years of service, based on management's best estimates of expected plan investment performance, salary escalation and retirement age of employees.

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

3. CHANGE TO ACCOUNTING POLICIES DUE TO ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION

In 2005, the Canadian Institute of Chartered Accountants issued three new accounting standards: Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges and Section 1530, Comprehensive Income. These standards must be adopted by Investissement Québec no later than April 1, 2007. The impact of these standards on the financial statements cannot be determined, as it is dependent on current positions and their fair value at the time of transition.

Financial Instruments – Recognition and Measurement

This new standard requires all financial instruments to be classified in one of the following categories: financial assets and liabilities held for trading, held-to-maturity investments; loans and receivables; other financial liabilities; or available-for-sale financial assets. Financial assets and liabilities held for trading must be measured at their fair value, while gains and losses must be recognized in income. Held-to-maturity investments, and receivables, and other financial liabilities must be valued at unamortized costs. Available-for-sale financial assets must be measured at their fair value and the resulting unrealized gains and losses must be recognized in other comprehensive income. The standard also allows an election to classify any financial instrument as an instrument held for trading on initial recognition.

Hedges

This new standard sets out the criteria for applying hedge accounting for each permitted hedging strategy: fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a self-sustaining foreign operation.

Comprehensive Income

Following the adoption of these standards, a new caption, entitled “Other Comprehensive Income”, must be added to equity in the consolidated balance sheet. The main items under this caption will include unrealized gains and losses on available-for-sale financial assets, unrealized foreign currency translation amounts, net of hedging transactions, arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

4. TEMPORARY INVESTMENTS

	2007	2006
Bankers' acceptances, from 4.30% to 4.32%, maturing in April 2007	10 874	5 003
Deposit certificate, 4.67%, maturing in April 2007	6 618	4 605
	<u>17 492</u>	<u>9 608</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars unless otherwise indicated)

5. INVESTMENTS

	2007	2006
Notes receivable from the Government of Québec, from 3.47% to 5.47%, maturing from April 2007 to March 2012, nominal value of \$2.7 billion	2 403 967	2 071 153
Bonds and other debt securities, from 3.47% to 11.00%, maturing from March 2008 to July 2031, nominal value of \$100.4 million	104 652	103 766
Money market securities – Mutual funds	35 927	34 969
Shares and other equity securities	27 704	35 574
Units of limited partnerships	83 325	40 331
Unlisted shares of entities acting as limited partners	4	(3)
Entity subject to significant influence – Canadair Québec Capital S.E.N.C., accounted for using the equity accounting method	24	77
	<u>2 655 603</u>	<u>2 285 867</u>

Investments denominated in US dollars totalled CDN\$7.3 million as at March 31, 2007 (\$10.3 million as at March 31, 2006).

The investments mature as follows:

Less than one year	332 315
From 1 to 2 years	546 183
From 2 to 3 years	673 275
From 3 to 4 years	499 296
From 4 to 5 years	452 750
From 5 to 10 years	88 009
More than 20 years	116
	<u>2 591 944</u>
No maturity	63 659
	<u>2 655 603</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

6. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	Total	Total
Interest-bearing				
Fixed rate ⁽¹⁾⁽²⁾	4 800	169 342	174 142	159 989
Variable rate ⁽³⁾	41 023	203 864	244 887	395 385
	45 823	373 206	419 029	555 374
Interest-free ⁽⁴⁾⁽⁵⁾	55	584 345	584 400	394 607
Restructured	298		298	1 691
Impaired	28 393	214 315	242 708	303 832
	74 569	1 171 866	1 246 435	1 255 504
Accumulated provision for losses				
Interest-bearing loans	(6 913)	(98 576)	(105 489)	(156 892)
Interest-free loans	(3)	(163 302)	(163 305)	(87 790)
Restructured loans	(233)		(233)	(1 331)
Impaired loans	(23 487)	(183 094)	(206 581)	(272 096)
	(30 636)	(444 972)	(475 608)	(518 109)
	43 933	726 894	770 827	737 395
Anticipated cash receipts from loans, according to contractual provisions, are as follows:				
Less than one year	21 271	114 767	136 038	168 335
From 1 to 2 years	12 952	72 092	85 044	72 179
From 2 to 3 years	10 839	73 996	84 835	73 728
From 3 to 4 years	8 355	182 234	190 589	86 849
From 4 to 5 years	10 096	56 394	66 490	157 566
From 5 to 10 years	10 821	538 282	549 103	455 085
From 10 to 20 years	235	23 655	23 890	182 932
More than 20 years		110 446	110 446	58 830
	74 569	1 171 866	1 246 435	1 255 504

(1) Fixed interest rates ranged from 2.75% to 15.00% as at March 31, 2007 (from 2.75% to 15.00% as at March 31, 2006).

(2) Including \$33.3 million in contributions repayable via royalties as at March 31, 2007 (\$20.7 million as at March 31, 2006).

(3) The Corporation's variable interest rate was 7.50% as at March 31, 2007 (7.00% as at March 31, 2006).

(4) These loans are interest-free for client companies. However, for loans whose losses are repaid by the Government of Québec, the government pays the Corporation interest contributions, calculated based on the balance of such loans at an interest rate that generally represents the Corporation's average monthly borrowing cost.

(5) Including \$66.8 million in contributions repayable via royalties as at March 31, 2007 (\$27.8 million as at March 31, 2006).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

7. SHARES, LESS ACCUMULATED PROVISION FOR LOSSES

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	Total	Total
Shares				
Common	675	25 250	25 925	26 161
Preferred	1 410	326 140	327 550	327 709
Of a special class		4 455	4 455	5 018
Common shares from restructured loans	975		975	243
Preferred shares from restructured loans	466		466	458
	<u>3 526</u>	<u>355 845</u>	<u>359 371</u>	<u>359 589</u>
Accumulated provision for losses				
Common shares	(334)	(13 754)	(14 088)	(11 021)
Preferred shares	(1 252)	(30 968)	(32 220)	(39 163)
Special class of shares		(4 455)	(4 455)	(5 018)
Common shares from restructured loans	(907)		(907)	(227)
Preferred shares from restructured loans	(438)		(438)	(421)
	<u>(2 931)</u>	<u>(49 177)</u>	<u>(52 108)</u>	<u>(55 850)</u>
	<u>595</u>	<u>306 668</u>	<u>307 263</u>	<u>303 739</u>
Share redemption maturities are as follows:				
Less than one year	503	194	697	857
From 1 to 2 years	75	53	128	102
From 2 to 3 years	75	53	128	128
From 3 to 4 years	75	53	128	128
From 4 to 5 years	68	16 680	16 748	128
From 5 to 10 years	52	887	939	17 687
From 10 to 20 years		45 000	45 000	45 000
More than 20 years		260 000	260 000	260 000
	<u>848</u>	<u>322 920</u>	<u>323 768</u>	<u>324 030</u>
No maturity	<u>2 678</u>	<u>32 925</u>	<u>35 603</u>	<u>35 559</u>
	<u>3 526</u>	<u>355 845</u>	<u>359 371</u>	<u>359 589</u>

The Corporation holds shares issued by public companies. The net carrying amount of these shares as at March 31, 2007 was \$3.7 million (\$3.1 million as at March 31, 2006). Based on quoted market prices as at March 31, 2007, these shares had a value of \$3.4 million (\$3.5 million as at March 31, 2006).

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. Based on the minimum redemption price specified in the contract, the gain resulting from the full exercise of this put would be \$8.2 million. As at March 31, 2007, the Corporation has not availed itself of this partial option.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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8. UNITS, LESS ACCUMULATED PROVISION FOR LOSSES

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	Total	Total
Units				
Preferred of cooperatives	395	2 481	2 876	2 879
Of a limited partnership		11 639	11 639	11 639
Preferred of cooperatives from restructured loans	1 080		1 080	1 031
	<u>1 475</u>	<u>14 120</u>	<u>15 595</u>	<u>15 549</u>
Accumulated provision for losses				
Preferred units of cooperatives	(308)	(732)	(1 040)	(1 209)
Units of a limited partnership		(11 639)	(11 639)	(11 639)
Preferred units of cooperatives from restructured loans	(842)		(842)	(237)
	<u>(1150)</u>	<u>(12 371)</u>	<u>(13 521)</u>	<u>(13 085)</u>
	<u>325</u>	<u>1 749</u>	<u>2 074</u>	<u>2 464</u>
Unit redemption maturities are as follows:				
Less than one year		104	104	71
From 1 to 2 years		78	78	78
From 2 to 3 years		78	78	78
From 3 to 4 years		194	194	78
From 4 to 5 years		78	78	78
From 5 to 10 years	702	333	1 035	1 154
From 10 to 20 years	378	230	608	698
More than 20 years		495	495	514
	<u>1 080</u>	<u>1 590</u>	<u>2 670</u>	<u>2 749</u>
No maturity	395	12 530	12 925	12 800
	<u>1 475</u>	<u>14 120</u>	<u>15 595</u>	<u>15 549</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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9. GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	Total	Total
Guarantees				
Loan guarantees	207 331	295 392	502 723	474 463
Financial commitment guarantees	41 103	1 905 667	1 946 770	1 907 832
	<u>248 434</u>	<u>2 201 059</u>	<u>2 449 493</u>	<u>2 382 295</u>
Accumulated provision for losses				
Loan guarantees	(34 866)	(45 832)	(80 698)	(83 344)
Financial commitment guarantees	(7 292)	(84 934)	(92 226)	(146 033)
	<u>(42 158)</u>	<u>(130 766)</u>	<u>(172 924)</u>	<u>(229 377)</u>
	<u>206 276</u>	<u>2 070 293</u>	<u>2 276 569</u>	<u>2 152 918</u>
Loan guarantee balances mature as follows:				
Less than one year	31 057	35 753	66 810	77 902
From 1 to 2 years	26 964	21 878	48 842	37 456
From 2 to 3 years	17 145	11 062	28 207	34 242
From 3 to 4 years	32 175	51 377	83 552	34 033
From 4 to 5 years	32 034	30 496	62 530	83 278
From 5 to 10 years	105 938	231 000	336 938	260 466
From 10 to 20 years	3 121	1 819 493	1 822 614	1 854 918
	<u>248 434</u>	<u>2 201 059</u>	<u>2 449 493</u>	<u>2 382 295</u>

Guarantees denominated in US dollars totalled CDN\$1.9 billion as at March 31, 2007 (\$1.9 billion as at March 31, 2006) and guarantees denominated in other currencies amounted to CDN\$25.5 million as at March 31, 2007 (\$24.6 million as at March 31, 2006).

10. ACCUMULATED PROVISION FOR LOSSES

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec ⁽¹⁾	Total	Total
Balance, beginning of year	81 588	736 154	817 742	644 740
Provision for losses ⁽²⁾	3 354	(8 253)	(4 899)	235 888
Recoveries	1 609	1 397	3 006	2 978
Write-offs ⁽³⁾	(3 906)	(88 025)	(91 931)	(45 812)
Guarantee disbursements that did not create an asset	(5 533)	(3 648)	(9 181)	(20 052)
Balance at end of year	<u>77 112</u>	<u>637 625</u>	<u>714 737</u>	<u>817 742</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

10. ACCUMULATED PROVISION FOR LOSSES (cont'd)

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec ⁽¹⁾	Total	Total
The accumulated provision for losses is allocated as follows:				
Loans	30 636	444 972	475 608	518 109
Shares	2 931	49 177	52 108	55 850
Units	1 150	12 371	13 521	13 085
Other receivables related to financing operations	237	339	576	1 321
Guarantees	42 158	130 766	172 924	229 377
	<u>77 112</u>	<u>637 625</u>	<u>714 737</u>	<u>817 742</u>

The Corporation may demand that client companies provide securities and sureties. The nature of the securities generally concerns the universality of the client company's assets, including 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 \$12.3 million as at March 31, 2007 (\$9.9 million as at March 31, 2006) and the value of guarantees at \$18.5 million (\$20.5 million as at March 31, 2006). The value of securities related to loans, shares and units in companies whose financial position meets the criteria of the Corporation's target clientele stood at \$130.1 million as at March 31, 2007 (\$98.5 million as at March 31, 2006).

- (1) Corresponds to the "Accumulated Provision for Losses Recoverable from the Government of Québec" presented as an asset on the balance sheet.
- (2) Including \$0.9 million in exchange gains as at March 31, 2007 (\$4.4 million as at March 31, 2006).
- (3) Write-offs in respect of restructured loans and write-offs of shares from restructured loans amounted to \$2.1 million for the year ended March 31, 2007 (no write-offs for the year ended March 31, 2006).

11. OTHER ASSETS

	2007	2006
Receivable from the Government of Québec	12 549	13 338
Stock options	4 593	3 757
Deferred fees to financial intermediaries	79 813	78 557
Interest and dividends receivable on investments	1 529	1 783
Deferred issuance expenses on long-term borrowings ⁽¹⁾	3 756	4 475
Assets related to derivative financial instruments	1 221	2 186
Fixed assets, less accumulated amortization of \$4.1 million (\$3.6 million as at March 31, 2006)	2 387	1 992
Finite life intangible assets, less accumulated amortization of \$6.6 million (\$6.3 million as at March 31, 2006)	769	623
Administration fees receivable – Related parties	509	406
Other receivables related to financing operations, less accumulated provision for losses ⁽²⁾	2 877	1 651
Other receivables	<u>825</u>	<u>602</u>
	<u>110 828</u>	<u>109 370</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

11. OTHER ASSETS (cont'd)

- (1) From transactions entered into with the Fonds de financement du gouvernement du Québec.
- (2) Other receivables related to financial operations, less accumulated provision for losses.

	2007			2006
	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	Total	Total
Receivables related to financial operations	854	2 599	3 453	2 972
Accumulated provision for losses on receivables related to financing operations (Note 10)	(237)	(339)	(576)	(1 321)
	<u>617</u>	<u>2 260</u>	<u>2 877</u>	<u>1 651</u>

Receivables related to financing operations denominated in US dollars totalled CDN\$0.6 million as at March 31, 2007 (CDN\$0.5 million as at March 31, 2006).

12. SHORT-TERM BORROWINGS

	2007	2006
Bankers' acceptances - financial institutions, from 4.35% to 4.37%, maturing in April 2007	20 300	37 500
Notes - financial institutions, from 4.36 % to 4.37%, maturing in April 2007	25 600	43 700
Notes - Fonds de financement du gouvernement du Québec, 4.39%, maturing in April 2007	<u>12 100</u>	<u>20 700</u>
	<u>58 000</u>	<u>101 900</u>

Under Order in Council 877-2006 of October 3, 2006, the Corporation is authorized to contract short-term borrowings from financial institutions or the Fonds de financement du gouvernement du Québec and long-term borrowings from the latter up to a maximum current amount of \$1.3 billion until October 31, 2010. In addition, 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 arising from borrowings with the Fonds de financement du gouvernement du Québec. The terms of this Order in Council also apply to the notes payable to the Fonds de financement du gouvernement du Québec referred to in Note 13.

The Corporation has bank lines of credit totalling \$10 million, bearing interest at the lender's prime rate (6.00% as at March 31, 2007; 5.50% as at March 31, 2006), renewable annually. As at March 31, 2007 and 2006, these bank lines of credit were undrawn.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

13. LONG-TERM BORROWINGS

	2007	2006
Notes - Fonds de financement du gouvernement du Québec:		
- at the bankers' acceptance rate (1 month) plus 0.19%, maturing in October 2007	75 000	75 000
- at the bankers' 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%)	79 739	80 868
- at the bankers' acceptance rate (3 months) plus 0.15%, maturing in October 2013	100 000	100 000
- at the bankers' acceptance rate (1 month) plus 0.08%, maturing in October 2013	60 000	60 000
- at the bankers' acceptance rate (1 month) plus 0.05%, maturing in October 2013 ⁽¹⁾	162 500	162 500
- at the bankers' acceptance rate (1 month) plus 0.12%, maturing in October 2013	134 120	134 120
- at the bankers' acceptance rate (1 month) plus 0.09%, maturing in October 2013 ⁽¹⁾	52 500	52 500
- at the bankers' acceptance rate (1 month) plus 0.10%, maturing from February 2012 to May 2014	100 000	100 000
- at the bankers' acceptance rate (1 month) plus 0.21%, maturing in June 2032	47 500	47 500
Interest-free advances from the Government of Québec, maturing from June 2020 to September 2021	97 167	44 667
Note—immigrant investors, interest-free, maturing from April 2007 to March 2012 ⁽²⁾	2 610 400	2 291 600
	<u>3 722 126</u>	<u>3 351 955</u>

Repayment of principal on long-term borrowings are as follows:

Less than one year	394 200
From 1 to 2 years	534 800
From 2 to 3 years	880 600
From 3 to 4 years	623 539
From 4 to 5 years	600 200
From 5 to 10 years	544 120
From 10 to 20 years	87 167
More than 20 years	47 500
	<u>3 712 126</u>
No maturity	10 000
	<u>3 722 126</u>

(1) The Corporation has the option of renewing this borrowing for a maximum period of 20 years from the maturity of the initial borrowing.

(2) Payment of the principal is guaranteed by Québec.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

14. OTHER LIABILITIES

	2007	2006
Financial contributions and guarantees payable		1 077
Non-repayable financial contributions payable to Emploi-Québec	2 765	2 609
Non-repayable financial contributions payable to the Ministère de l'Immigration et des Communautés culturelles	1 166	
Deferred income ⁽¹⁾	3 487	3 060
Liabilities related to derivative financial instruments	3 536	2 603
Sick leave and vacation time payable (Note 29)	10 887	10 319
Other payables ⁽²⁾	7 972	4 514
	<u>29 813</u>	<u>24 182</u>

(1) Including a deferred contribution of the Ministère du Développement économique, de l'Innovation et de l'Exportation amounting to \$50 000 as at March 31, 2007 (\$50 000 as at March 31, 2006).

(2) Including \$0.3 million due to related entities as at March 31, 2007 (\$0.2 million as at March 31, 2006).

15. INTEREST EXPENSE

	2007	2006	2005
Interest on long-term borrowings ⁽¹⁾	47 709	35 452	29 399
Interest on short-term borrowings and bank charges ⁽²⁾	4 558	3 674	6 794
Amortization of issuance expenses on long-term borrowings ⁽¹⁾	719	719	713
Amortization of premium on long-term borrowings ⁽¹⁾	(1 129)	(1 129)	(1 129)
	<u>51 857</u>	<u>38 716</u>	<u>35 777</u>

(1) From transactions entered into with the Fonds de financement du gouvernement du Québec.

(2) The interest expense in respect of short-term borrowings from the Fonds de financement du gouvernement du Québec totalled \$1.8 million for the year ended March 31, 2007 (\$0.9 million for the year ended March 31, 2006; \$2.1 million for the year ended March 31, 2005).

16. RISK PREMIUMS – STOCK OPTIONS

	2007	2006	2005
Gain on disposal of stock options	1 526	2 220	878
Gain on disposal of shares resulting from the exercise of stock options	358	1 473	1 556
Unrealized gain (loss) resulting from changes in the fair value of stock options	836	(170)	(25)
	<u>2 720</u>	<u>3 523</u>	<u>2 409</u>

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

17. OTHER INCOME

	2007	2006	2005
Gain on disposal of shares and units	66	136 437	17 173
Share of income distributed by a limited partnership			70
Dividends	5	21	3
Inducement fees	3 020	3 020	2 180
Certification fees	3 687	2 160	104
Income on other investments	6 255	6 128	5 193
Gain on disposal of investments	1 338	1 165	887
Change in unrealized loss in value of investments	(2 608)	(515)	
Unrealized foreign exchange gain (loss) on investments	149	(284)	(629)
Net loss on derivative financial instruments	(2 439)	(6 346)	(107)
Other income from the Government of Québec	4 428	1 667	1 885
Other income	1 004	952	225
	<u>14 905</u>	<u>144 405</u>	<u>26 984</u>

18. FINANCIAL CONTRIBUTIONS

	2007			2006	2005
	Not assumed by the Québec Government	Assumed by the Québec Government ⁽¹⁾	Total	Total	Total
Non-repayable financial contributions – Companies	43 127	20 957	64 084	62 609	51 786
Non-repayable financial contributions – Emploi-Québec	5 576		5 576	2 609	
Non-repayable financial contributions –Ministère de l'Immigration et des Commu- nautés cultures	1 166		1 166		
Conditional repayable financial contributions		(1 291)	(1 291)	(2 590)	847
	<u>49 869</u>	<u>19 666</u>	<u>69 535</u>	<u>62 628</u>	<u>52 633</u>

(1) Represents the "Financial Contributions Assumed by the Government of Québec" presented in consolidated income.

19. ADMINISTRATIVE EXPENSES ⁽¹⁾

	2007	2006	2005
Salaries and employee benefits	34 091	30 282	28 228
Rent	2 780	2 757	2 320
Travel, entertainment, advertising and promotion	4 187	4 001	3 489
Professional and other fees	1 378	989	1 056
Amortization of fixed assets and finite life intangible assets	864	800	859
Other	4 339	4 521	4 324
	<u>47 639</u>	<u>43 350</u>	<u>40 276</u>

(1) Include \$3.7 million for related entities for the year ended March 31, 2007 (\$3.9 million for the year ended March 31, 2006; \$4.6 million for the fiscal year ended March 31, 2005).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

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20. OTHER EXPENSES

	2007	2006	2005
Counter-guarantee fees	3 020	3 020	2 180
Share of income – Entity subject to significant influence, Canadair Québec Capital S.E.N.C.	53	9	
Other expenses	716	862	806
	<u>3 789</u>	<u>3 891</u>	<u>2 986</u>

21. CHANGES IN OPERATING ASSETS AND LIABILITIES

	2007	2006	2005
Other assets	236	34 888	(37 569)
Due and accrued interest on borrowings	3 530	2 810	297
Other liabilities	4 698	(777)	2 186
Accumulated provision for losses	(98 106)	(62 886)	(167 094)
Accumulated provision for losses recoverable from the Government of Québec	90 276	51 036	150 337
	<u>634</u>	<u>25 071</u>	<u>(51 843)</u>

22. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing financing operations, the Corporation may require client companies to pay a stock option risk premium that varies based on the nature of the risk. The Corporation also enters into futures contracts for the purchase or sale of financial instruments at set prices and future dates. Futures contracts are traded 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, 2007, as represented by unrealized gains in the case of stock options and by unrealized gains or losses with regard to futures contracts.

	2007		2006
	Positive	Negative	Net amount
Stock options	4 593		4 593
Foreign exchange options	1 221		1 221
Interest rate swaps		3 536	(3 536)
Exchange traded futures	11		11
	<u>5 825</u>	<u>3 536</u>	<u>2 289</u>
			<u>3 419</u>

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is meant to reflect the approximate amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act in the normal course of business. The best indication of fair value is the market price.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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23. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

When available, the Corporation relies on market prices at the balance sheet date to determine the fair value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures fair value using valuation methods and assumptions. Given the role that judgement plays in the application of many acceptable valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among different entities. Fair value is based on the market conditions at a given point in time and hence does not necessarily reflect the future fair value of instruments. It cannot be interpreted as the realizable amount upon immediate settlement of the instruments.

The following table illustrates the fair value of financial derivatives, including balance sheet and off-balance sheet derivatives, that were established using the valuation methods and assumptions described below. The fair values of assets and liabilities that are not considered financial instruments, such as fixed assets and finite life intangible assets, and those not covered by the recommendations of the CICA Handbook section 3860, Financial Instruments - Disclosure and Presentation, are not presented in the table.

	2007			2006		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Balance sheet financial instruments						
Assets						
Cash, bank overdraft and temporary investments	26 932	26 932		3 667	3 667	
Investments	2 655 579	2 662 287	6 708	2 285 790	2 284 446	(1 344)
Loans, less accumulated provision for losses ⁽¹⁾	770 827	711 223	(59 604)	737 395	681 543	(55 852)
Shares and units, less accumulated provision for losses ⁽¹⁾	309 337	65 983	(243 354)	306 203	58 668	(247 535)
Accumulated provision for losses recoverable from the Government of Québec	637 625	899 116	261 491	736 154	918 199	182 045
Stock options	4 593	4 593		3 757	3 757	
Assets related to derivative financial instruments	1 221	1 221		2 186	2 186	
Interest contributions from the Government of Québec		178 293	178 293		160 970	160 970
Other assets	18 288	18 288		17 756	17 756	
	<u>4 424 402</u>	<u>4 567 936</u>	<u>143 534</u>	<u>4 092 908</u>	<u>4 131 192</u>	<u>38 284</u>
Liabilities						
Borrowing	3 780 126	3 521 690	258 436	3 453 855	3 199 476	254 379
Liabilities related to derivative financial instruments	3 536	3 536		2 603	2 603	
Other liabilities	30 807	30 777	30	23 574	23 548	26
	<u>3 814 469</u>	<u>3 556 003</u>	<u>258 466</u>	<u>3 480 032</u>	<u>3 225 627</u>	<u>254 405</u>
Off-balance-sheet financial instruments						
Guarantees ⁽²⁾	(172 924)	(297 388)	(124 464)	(229 377)	(290 071)	(60 694)
	<u>(172 924)</u>	<u>(297 388)</u>	<u>(124 464)</u>	<u>(229 377)</u>	<u>(290 071)</u>	<u>(60 694)</u>
			<u>277 536</u>			<u>231 995</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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23. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

- (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 difference between the carrying amount (\$1.1 billion) and the fair value (\$777.2 million) does not result in permanent impairment but stems rather from the discounting of such loans, shares and units. The Corporation accounts for the latter at cost, given that the Government of Québec pays it an interest contribution so as to offset the low or zero yield on these assets.
- (2) Guarantees are classified as an off-balance sheet financial instrument. However, the carrying amount of guarantees, which represents the amount of the accumulated provision for losses on guarantees, is part of the financial instruments presented in the Corporation's balance sheet.

The fair value of balance-sheet and off-balance sheet financial instruments was estimated using the following methods and assumptions:

Cash, temporary investments, bank overdraft, short-term borrowings, and other assets and liabilities

Given the short-term maturities of cash, temporary investments, bank overdraft, short-term borrowings, and other assets and liabilities, their fair value is considered to be equivalent to their carrying amount.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using market interest rates for borrowings with similar terms and credit risks.

Investments

The fair value of investments in securities is based on market prices at the balance sheet date. The fair value of notes receivable from the Government of Québec is estimated by discounting cash flows using market interest rates for investments with similar terms and credit risks.

Loans

The fair value of the loan portfolio is based on the assessment of interest rate risk and credit risk. The fair value of fixed-rate, fixed-repayment loans is estimated by discounting cash flows using risk-free market interest rates and taking into account the Corporation's loss experience for loans with similar terms 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 carrying amount given that they bear interest at rates that vary based on market conditions. The fair value of variable-repayment loans cannot be reasonably estimated, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the carrying amount. For impaired loans, the fair value is deemed to be equal to the carrying amount, in accordance with the valuation methods described in note 2 under "Accumulated Provision for Losses."

Shares and units

The fair value of shares and units is based on market prices, at the balance sheet date, when they are available. The fair value of preferred shares with a set redemption date and that of fixed-rate, fixed-repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free market interest rates and taking into account the Corporation's loss experience for shares and units with similar terms and credit risks. With respect to other equity securities that are not traded on organized markets, the fair value, since it cannot be reasonably estimated, is deemed to be equivalent to the carrying amount.

Accumulated provision for losses recoverable from the Government of Québec

The fair value of the accumulated provision for losses recoverable from the Government of Québec is based on the assessment of interest rate risk and credit risk, and is estimated by discounting cash flows, which represent anticipated losses on financing operations, using the interest rates of the Government of Québec and taking into account the Corporation's loss experience for financing operations with similar terms and credit risks.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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23. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**Derivative financial instruments**

The fair value of derivative financial instruments is based on market prices, at the balance sheet date, when they are available. With respect to stock options that are not traded on organized markets, the fair value is based on the carrying amount of the company concerned.

Interest contributions from the Government of Québec

The fair value of interest contributions from the Government of Québec is based on the assessment of interest rate risk and 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.

Borrowings

The fair value of fixed-rate long-term borrowings is based on market prices for debt instruments with similar terms and credit risks. The fair value of variable-rate long-term borrowings is deemed to be equal to the carrying amount.

Guarantees

The fair value of the guarantee portfolio is based on the assessment of interest rate risk and credit risk, and is estimated by discounting anticipated guarantee fees and disbursements using risk-free market interest rates and taking into account the Corporation's loss experience for guarantees with similar terms and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value represents the accumulated provision for losses, in accordance with the valuation methods described in Note 2 under "Accumulated Provision for Losses."

24. INTEREST RATE SENSITIVITY

The Corporation offers a range of financial instruments with cash flows that are sensitive to interest rate fluctuations. Interest rate risk results from the inconsistency between the various cash flows, whether on or off balance sheet. The impact of this risk on the Corporation's financial results depends on changes in interest rates.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

24. INTEREST RATE SENSITIVITY (cont'd)

The Corporation's sensitivity to changes in interest rates as at March 31 is detailed as follows:

							2007
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates	Total
Balance sheet							
financial instruments							
Assets							
Cash and temporary investments		17 492				9 440	26 932
<i>Real interest rate</i>		4.4%					
Investments		93 402	238 912	2 171 942	4 363	146 984	2 655 603
<i>Real interest rate</i>		5.3%	4.6%	4.1%	4.4%		
Interests-free loans		4 320	5 165	107 427	467 488	99 530	683 930
Other loans, shares and units	233 292	11 715	111	131 279	42 964	518 110	937 471
<i>Real interest rate</i>		7.6%	4.6%	7.7%	6.8%		
Accumulated provision for losses on loans, shares and units						(541 237)	(541 237)
Accumulated provision for losses recoverable from the Government of Québec						637 625	637 625
Other assets						110 828	110 828
	<u>233 292</u>	<u>126 929</u>	<u>244 188</u>	<u>2 410 648</u>	<u>514 815</u>	<u>981 280</u>	<u>4 511 152</u>
Liabilities and equity							
Interest-free borrowings		90 400	228 800	2 291 200	97 167		2 707 567
Interest-bearing borrowings		964 620		107 939			1 072 559
<i>Real interest rate</i>		4.5%		5.6%			
Other liabilities		(97 859)			101 395	218 105	221 641
Equity						509 385	509 385
		<u>957 161</u>	<u>228 800</u>	<u>2 399 139</u>	<u>198 562</u>	<u>727 490</u>	<u>4 511 152</u>
Sensitivity gap	<u>233 292</u>	<u>(830 232)</u>	<u>15 388</u>	<u>11 509</u>	<u>316 253</u>	<u>253 790</u>	
Off-balance sheet financial instruments							
Guarantees						2 276 569	2 276 569
Sensitivity gap						(2 276 569)	(2 276 569)
Total 2007	<u>233 292</u>	<u>(830 232)</u>	<u>15 388</u>	<u>11 509</u>	<u>316 253</u>	<u>(2 022 779)</u>	<u>(2 276 569)</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

24. INTEREST RATE SENSITIVITY (cont'd)

	2006					
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates
						Total
Balance sheet financial instruments	382 503	(912 257)	23 140	(35 244)	220 542	321 316
Off-balance sheet financial instruments						(2 152 918)
						(2 152 918)
Total 2006	382 503	(912 257)	23 140	(35 244)	220 542	(1 831 602)
						(2 152 918)

The real interest rate represents the average weighted effective interest rate taking into consideration the earlier of the rate modification date set out in the contract and the maturity date.

25. CONCENTRATION OF CREDIT RISK RELATED TO FINANCIAL OPERATIONS

	2007			2006		
	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec
By sector:						
Primary sector companies	7 784	7 744	41 772	7 496	6 327	39 123
Secondary sector companies						
Transportation equipment	220 825	1 862 621	135 662	163 981	1 776 654	210 157
Paper	258 537	2 003	124 789	253 862	2 924	207 821
Primary processing metals and metal products	326 918	35 377	27 676	323 090	25 307	30 942
Other	176 967	167 119	168 229	178 226	137 140	127 956
	983 247	2 067 120	456 356	919 159	1 942 025	576 876
Tertiary sector companies	92 010	201 705	139 497	118 594	204 566	120 155
	1 083 041	2 276 569	637 625	1 045 249	2 152 918	736 154

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

25. CONCENTRATION OF CREDIT RISK RELATED TO FINANCIAL OPERATIONS (cont'd)

	2007			2006		
	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec
With the Government of Québec:						
Financing operations for which losses are repaid by the Government of Québec	<u>1 037 571</u>	<u>2 070 293</u>	<u>637 625</u>	<u>1 002 521</u>	<u>1 961 413</u>	<u>736 154</u>

26. FINANCING AND INVESTMENT COMMITMENTS

The financing commitments of the Corporation, entered into in the normal course of business, are presented in the table below and are grouped into two categories. The first includes financing agreements authorized by the Corporation that have not yet been accepted by clients. The second includes financing agreements accepted by clients, i.e. amounts not disbursed on loans, shares and units, amounts for which disbursement has not been authorized for financial contributions and amounts that have not yet been used for guarantees. In addition, under agreements with certain partners, the Corporation has undertaken to invest, through units of limited partnerships, in the FIER-Regions, the mutual funds of FIER Partners and the Support Funds.

The total value of these commitments does not necessarily represent future cash requirements, as several will expire or may be cancelled without having resulted in disbursements.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars unless otherwise indicated)

26. FINANCING AND INVESTMENT COMMITMENTS (cont'd)

The amounts of the commitments are as follows:

	2007		2006
	Losses not repaid and contributions not assumed by the Government of Québec	Losses repaid and contributions assumed by the Government of Québec	
		Total	Total
Financing commitments			
Authorized agreements awaiting acceptance by clients			
Loans	6 038	104 640	20 114
Guarantees	8 621	13 048	13 012
Financial contributions	2 166	54 117	13 657
	16 825	171 805	46 783
Agreements accepted by clients			
Loans	7 794	403 283	326 809
Guarantees	80 635	431 617	524 274
Financial contributions	139 926	116 924	259 175
	228 355	951 824	1 110 258
	245 180	1 123 629	1 157 041
Investments commitments			
Units of limited partnerships			
FIER-Regions		124 342	104 752
FIER Partners, L.P.		85 633	88 974
Support Funds		8 956	11 433
		218 931	205 159
	245 180	1 342 560	1 362 200

Commitments denominated in US dollars totalled CDN\$69 375 as at March 31, 2007 (\$62 835 as at March 31, 2006).

27. OTHER COMMITMENTS

The Corporation has undertaken to pay fees totalling \$34.9 million as at March 31, 2007 (\$24.3 million as at March 31, 2006) to financial intermediaries for soliciting immigrant investors, targeting companies for referral and closing immigrant investor files.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

27. OTHER COMMITMENTS (cont'd)

The Corporation has further undertaken to pay financial contributions under the “Employment Integration Program for Immigrants and Visible Minorities” administered by Emploi-Québec and intended for businesses. As at March 31, 2007, the Corporation had no commitments in respect of these contributions (\$1.7 million as at March 31, 2006).

28. PENSION PLANS

The employees of Investissement Québec participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM), which are inter-company defined benefit plans that include retirement and death coverage. Investissement Québec’s obligations under these government plans are limited to employer contributions. Investissement Québec’s contributions charged to income for the year amounted to \$1.4 million (\$1.4 million for the year ended March 31, 2006; \$1 million for the year ended March 31, 2005).

The employer’s liabilities under the supplementary pension plans consist in fully assuming benefits when beneficiaries retire. Accordingly, no contributions are paid by the employees or the employer. As at March 31, 2007, the employer’s obligations amounted to \$1.2 million (\$0.1 million as at March 31, 2006; \$0.1 million as at March 31, 2005)) and appear under “Other liabilities”. The Corporation charged \$1.1 million to income for the year ended March 31, 2007 (nil for the years ended March 31, 2006 and 2005). The significant actuarial assumptions used by the Corporation to assess its accrued benefit obligations were as follows: the plan’s expected rate of return was 5.75% and the rate of compensation increase was 3.50%.

29. SICK LEAVE AND VACATIONS TIME PAYABLE

	2007	2006
Balance, beginning of year	10 319	9 990
Expense for the year	3 630	3 198
Amount paid during the year	(3 062)	(2 869)
Balance, end of year	<u>10 887</u>	<u>10 319</u>

30. CONTINGENCIES

Under Order in Council 1393-2001 issued by the Government of Québec on November 21, 2001, 9109-3294 Québec inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 2001 for \$1. Investissement Québec partially guarantees the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up costs, which it must assume, could amount to \$9.9 million. However, under its incorporating act, any potential losses stemming from this contingent liability will be borne by the Government of Québec.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently pending. 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.

31. 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 Government of Québec or are subject to either joint control or significant common influence by the Government of Québec. The Corporation’s business transactions with these related parties were carried out in the normal course of business and under usual business conditions. All of these transactions have been recorded at the exchange amount and disclosed separately in the financial statements.

32. COMPARATIVE FIGURES

Certain figures from fiscal 2005 and 2006 have been reclassified to conform to the current year presentation.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

33. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2007						2006
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ Fier inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Assets							
Cash	9 188	246	2	4		9 440	
Temporary investments	9 049	6 618	1 825			17 492	9 608
Investments		2 572 250	83 329	24		2 655 603	2 285 867
Loans, less accumulated provision for losses	770 827					770 827	737 395
Shares, less accumulated provision for losses	307 263					307 263	303 739
Units, less accumulated provision for losses	2 074					2 074	2 464
Accumulated provision for losses recoverable from the Government of Québec	637 625					637 625	736 154
Investments in subsidiaries, accounted for using the equity method	40 461				(40 461)		
Advances to subsidiaries	87 531				(87 531)		
Other assets	29 523	81 342	129	2 408	(2 574)	110 828	109 370
	1 893 541	2 660 456	85 285	2 436	(130 566)	4 511 152	4 184 597

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

33. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2007					2006	
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ Fier inc.	Other subsidiaries	Eliminations & reclassi- fications (1)	Consolidated total	Consolidated total
Liabilities and equity							
Liabilities							
Bank overdraft							5 941
Short-term borrowings	58 000					58 000	101 900
Long-term borrowings	1 111 726	2 610 400				3 722 126	3 351 955
Due and accrued interest on borrowings	18 904					18 904	15 374
Advances from the parent company			87 367	164	(87 531)		
Accumulated provision for losses on guarantees	172 924					172 924	229 377
Other liabilities	22 602	5 501	2 015	2 269	(2 574)	29 813	24 182
	1 384 156	2 615 901	89 382	2 433	(90 105)	4 001 767	3 728 729
Equity							
Initial equity and share capital	32 944	1	1	3	(5)	32 944	32 944
Retained earnings (deficit)	476 441	44 554	(4 098)		(40 456)	476 441	422 924
	509 385	44 555	(4 097)	3	(40 461)	509 385	455 868
	1 893 541	2 660 456	85 285	2 436	(130 566)	4 511 152	4 184 597
Guarantees, less the accumulated provision for losses	2 276 569					2 276 569	2 152 918

(1) Eliminations related to balances and inter-company transactions and reclassifications.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

34. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2007						2006
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ Fier inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Interest income							
Interest on loans	52 686					52 686	42 710
Interest on cash and temporary investments	301	244	600			1 145	648
Interest contribu- tions from the Government of Québec	45 095					45 095	33 480
	98 082	244	600			98 926	76 838
Interest expense	51 857					51 857	38 716
Net interest income	46 225	244	600			47 069	38 122
Other income							
Interest on notes receivable from the Government of Québec		95 215				95 215	79 056
Guarantee fees	22 073					22 073	19 696
Risk premiums							
Stock options	2 720					2 720	3 523
Share-in-income and lump-sum premiums	9 132					9 132	4 862
Commitment fees	6 599					6 599	12 151
Fees – Related company, IQ Immigrants Investisseurs inc.	1 377				(1 377)		
Other income	9 632	7 742	(2 608)	139		14 905	144 405
	51 533	102 957	(2 608)	139	(1 377)	150 644	263 693
Amounts carried forward	97 758	103 201	(2 008)	139	(1 377)	197 713	301 815

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars unless otherwise indicated)

34. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2007						2006
	Investis- sment Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ Fier inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Amounts brought forward	97 758	103 201	(2 008)	139	(1 377)	197 713	301 815
Provision							
Provision for losses	(4 899)					(4 899)	235 888
Provision for losses recoverable from the Government of Québec	8 253					8 253	(228 234)
	3 354					3 354	7 654
Non-interest expenses							
Financial contributions	17 809	49 869		1 857		69 535	62 628
Financial contributions assumed by the Government of Québec	(17 809)			(1 857)		(19 666)	(25 162)
Fees to financial intermediaries		39 545				39 545	32 650
Fees for the management of financial contribution files - Parent company		1 569			(1 569)		
Administrative expenses	46 565	406	761		(93)	47 639	43 350
Other expenses	3 229	222		53	285	3 789	3 891
	49 794	91 611	761	53	(1 377)	140 842	117 357
Net income before share of income of subsidiaries	44 610	11 590	(2 769)	86		53 517	176 804
Share of income of subsidiaries	8 907				(8 907)		
Net income	53 517	11 590	(2 769)	86	(8 907)	53 517	176 804

(1) Eliminations related to balances and inter-company transactions and reclassifications.

INVESTISSEMENT QUÉBEC**DECLARATION OF RESPONSIBILITY FOR FINANCIAL INFORMATION**

Management assumes responsibility for the preparation and presentation of the consolidated financial statements of Investissement Québec and for the other information disclosed in this Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The financial information appearing elsewhere 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, is designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The financial statements have been approved by the Board of Directors, which oversees management's responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee. This Committee meets with management and the auditor, reviews the financial statements and recommends their approval to the Board. The Audit Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations.

Jacques Daoust
President and Chief Executive Officer

André Côté
Executive Vice-President, General Administration

AUDITOR'S REPORT

To the National Assembly,

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2007, and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007, 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 City, May 25, 2007

IQ FIER INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	2	
Short-term investments (Note 3)	1 825	7 003
Investments (Note 4)	83 329	40 328
Other accounts receivable	<u>129</u>	<u>72</u>
	<u>85 285</u>	<u>47 403</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Bank overdraft		2 666
Advances from parent company, interest-free, repayable between June 2020 and September 2021	87 367	44 867
Fees payable to parent company	<u>2 015</u>	<u>1 198</u>
	<u>89 382</u>	<u>48 731</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 5)	1	1
Cumulated deficit	<u>(4 098)</u>	<u>(1 329)</u>
	<u>(4 097)</u>	<u>(1 328)</u>
	<u>85 285</u>	<u>47 403</u>

INVESTMENT COMMITMENTS (Note 6)

The notes are an integral part of the financial statements.

For the Board of Directors,
Jacques Daoust, Chairman of the Board
Jean Larivée, Director

IQ FIER INC.

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31
(in thousand of dollars)

	2007 (12 months)	2006 (12 months)	2005 (2 months)
OPERATING REVENUES			
Interest income on cash and short-term investments	600	312	
Change in unrealized loss on investments	(2 608)	(515)	
	(2 008)	(203)	
ADMINISTRATIVE FEES – PARENT COMPANY:			
Salaries and fringe benefits	483	447	81
Rent	31	32	7
Travel, representation, publicity and promotion	102	129	27
Fees	106	261	93
Amortization of capital assets	10	9	2
Other	29	31	7
	761	909	217
NET LOSS	(2 769)	(1 112)	(217)
Cumulated deficit, beginning of year	(1 329)	(217)	
CUMULATED DEFICIT, END OF YEAR	<u>(4 098)</u>	<u>(1 329)</u>	<u>(217)</u>

The notes are an integral part of the financial statements.

IQ FIER INC.

STATEMENT OF CASH FLOWS
for the year ended March 31
(in thousand of dollars)

	2007 (12 months)	2006 (12 months)	2005 (2 months)
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net loss	(2 769)	(1 112)	(217)
Adjustment for change in unrealized loss on investments	2 608	515	
Change in assets and liabilities linked to operations:			
Other accounts receivable	(57)	(72)	
Fees to be paid to the parent company	817	1 032	166
Other accounts payable	<u> </u>	<u>(51)</u>	<u>51</u>
	<u>599</u>	<u>312</u>	<u> </u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES			
Acquisition of investments	<u>(45 609)</u>	<u>(40 645)</u>	<u>(198)</u>
	<u>(45 609)</u>	<u>(40 645)</u>	<u>(198)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Advances from the parent company	42 500	44 667	200
Stock issue	<u> </u>	<u> </u>	<u>1</u>
	<u>42 500</u>	<u>44 667</u>	<u>201</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2 510)	4 334	3
Cash and cash equivalents, beginning of year	<u>4 337</u>	<u>3</u>	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>1 827</u>	<u>4 337</u>	<u>3</u>
CASH AND CASH EQUIVALENTS			
Cash on hand	2		3
Short-term investments	1 825	7 003	
Bank overdraft	<u> </u>	<u>(2 666)</u>	<u> </u>
	<u>1 827</u>	<u>4 337</u>	<u>3</u>

The notes are an integral part of the financial statements.

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS**

as at March 31, 2007

(in thousand of dollars)

1. CONSTITUTION AND NATURE OF ACTIVITIES

IQ FIER inc., created 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 invests in companies in the form of equity or equity equivalents during the start-up and development phases.

Under Order-in-Council 1171-2004, dated December 15, 2004 and amended by Orders-in-Council 680-2005 and 651-2006, dated June 29, 2005 and June 28, 2006 respectively, IQ FIER inc. can invest an amount of up to \$318 million as follows: up to \$192 million to support the creation of FIER-Régions, up to \$90 million in the FIER Partenaires mutual fund and up to \$36 million to set up Fonds-Soutien. The amounts invested by the company come from the parent company, which is mandated to receive them from the Ministère des Finances.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the agency shall formulate, according to the form, content and intervals fixed by the Government, a strategic plan which must include the operations of its subsidiaries. This plan was approved on September 22, 2004 (Order-in-Council 878-2004) and terminated on March 31, 2007. Under section 47 of this same Act, this plan shall, on expiry, continue in force until a new plan is approved. A new plan was in the process of being approved at March 31, 2007.

2. STATEMENT OF MAIN ACCOUNTING POLICIES**Use of estimates**

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

Cash and cash equivalents

It is IQ FIER's policy to present cash, short-term investments maturing within three months of their acquisition date and bank overdrafts as cash and cash equivalents.

Financial instrument reporting

Financial instruments are posted on the date of the transaction.

Fair value

The Corporation is an investment company as defined in Accounting Guideline AcG-18 governing the Canadian Institute of Chartered Accountants' accounting procedure entitled "Investment Companies" (AcG-18).

In accordance with this accounting guideline, investments were determined at fair value, i.e. the amount of the consideration agreed upon, at the date of the financial statements, by competent parties acting freely under fully competitive conditions. The investment realization value may vary significantly from the fair value due to changes in market conditions.

Given that they mature in the short term, the fair value of cash, short-term investments, other assets and fees paid to the parent company is considered equal to their book value. The fair value of advances from the parent company cannot be reasonably estimated, given that there is no organized market for this type of instrument. Consequently, the fair value is considered equal to the book value.

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousand of dollars)

2. STATEMENT OF MAIN ACCOUNTING POLICIES (cont'd)**Investments**

The fair value of shares in limited partnerships and unquoted shares in companies acting as sponsorships is based on the audited financial statements of these corporations, which are assessed at fair value. However, under contractual agreements with the FIER-Régions and Fonds-Soutien, if the cumulated annual net profits minus the cumulated annual net losses is positive at the end of each agreement's yield waiver period, the Corporation renounces its share. Consequently, the fair value of the investments depends on this clause.

Administrative fees – parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share in administrative expenses and certain fees shared by the parent company, but attributable to the Corporation. These fees are recorded on an accrual basis.

3. SHORT-TERM INVESTMENTS

	2007	2006
Banker's acceptance, 4.32%, maturing in April 2007	1 825	5 003
Deposit certificate		2 000
	<u>1 825</u>	<u>7 003</u>

4 INVESTMENTS

	2007	2006
Limited partnership shares		
FIER-Régions – 66.67% of the shares issues by each limited partnership, maturing between June 2015 and February 2017 ^{1,2}	65 039	31 010
FIER Partenaires, s.e.c. – 50% of the shares issued, maturing no later than March 2017 ³	3 309	769
Fonds-Soutien – 66.67% of the shares issued by each limited partnership, maturing between July 2015 and October 2016 ^{1,2}	<u>14 977</u>	<u>8 552</u>
	<u>83 325</u>	<u>40 331</u>
Unquoted shares of companies acting as sponsorships		
FIER-Régions – Non-voting shares	2	(5)
FIER Partenaires, inc. – 50 % of voting shares	1	1
Fonds-Soutien – Non-voting shares	<u>1</u>	<u>1</u>
	<u>4</u>	<u>(3)</u>
	<u>83 329</u>	<u>40 328</u>

1 These dates could be deferred by general partnerships with the unanimous consent of sponsors for no more than two additional one-year periods.

2 At any time in the yield waiver period, the other sponsors have a call option to purchase the shares held by the Corporation at the initial purchase price plus 6% of the annual yield since their acquisition date. As of the third fiscal year after the yield waiver period, the other sponsors also have a call option at a price that is equal to or higher than the fair value or book value.

3 This date could be deferred by general partnerships with the unanimous consent of sponsors for no more than three additional one-year periods.

IQ FIER INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousand of dollars)

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 Société and category "B" shareholders.

Category "A", voting and participating

	<u>2007</u>	<u>2006</u>
Issued and paid		
10 class A shares	<u>1</u>	<u>1</u>

6. INVESTMENT COMMITMENTS

In the course of its activities, the Corporation contracts various commitments, representing the investment agreements authorized by the Corporation. The total amounts of these commitments does not necessarily represent future cash needs since some will expire or could be cancelled without having resulted in disbursements.

The amount of these commitments breaks down as:

	<u>2007</u>	<u>2006</u>
Limited partnership shares		
FIER-Régions	124 342	104 752
FIER Partenaires, s.e.c.	85 633	88 974
Fonds-Soutien	<u>8 956</u>	<u>11 433</u>
	<u>218 931</u>	<u>205 159</u>

7. RELATED PARTY TRANSACTIONS

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

IQ FIER INC.**AUDITOR'S REPORT**

To IQ FIER inc. shareholders

I have audited the balance sheet of IQ FIER inc. as at March 31, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of IQ FIER's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, IQ FIER'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 Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 22, 2007

IQ IMMIGRANTS INVESTISSEURS INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2007	2006
ASSETS		
Cash on hand	246	44
Deposit certificate, 4.67%, maturing in April 2007	6 618	2 605
Investments (Note 4)	2 572 250	2 245 462
Interest and dividends receivable on investments	1 529	1 783
Deferred financial intermediaries' fees	79 813	78 557
	<u>2 660 456</u>	<u>2 328 451</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Long-term borrowings (Note 6)	2 610 400	2 291 600
Fees payable to parent company	559	484
Non-refundable financial contributions payable to Emploi-Québec	2 765	2 609
Non-refundable financial contributions payable to Ministère de l'Immigration et des Communautés culturelles	1 166	
Other liabilities	1 011	793
	<u>2 615 901</u>	<u>2 295 486</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	1	1
Retained earnings	44 554	32 964
	<u>44 555</u>	<u>32 965</u>
	<u>2 660 456</u>	<u>2 328 451</u>

COMMITMENTS (Note 11)

The notes are an integral part of the financial statements.

For the Board of Directors,
Jacques Daoust, Chairman of the Board
Jean Larivée, Director

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the fiscal year ended March 31
(in thousands of dollars)

	2007	2006	2005
OPERATING REVENUES			
Interest income on Gouvernement du Québec notes receivable	95 215	79 056	54 345
Interest on cash and short-term investment income	244	185	173
Other investment income	6 255	6 128	5 193
Gain on sale of investments	1 338	1 165	887
Unrealized exchange gain (loss) on investments	149	(284)	(629)
	<u>103 201</u>	<u>86 250</u>	<u>59 969</u>
OPERATING EXPENSES			
Non-refundable financial contributions (Note 8)	49 869	37 466	20 968
Financial intermediaries' fees	39 545	32 650	26 464
Financial contribution management fees			
– parent company	1 569	1 384	1 180
Other	222	270	310
	<u>91 205</u>	<u>71 770</u>	<u>48 922</u>
OPERATING PROFITS	<u>11 996</u>	<u>14 480</u>	<u>11 047</u>
ADMINISTRATIVE FEES – PARENT COMPANY FOR:			
Salaries and fringe benefits	290	222	223
Rent	22	23	20
Travel, entertainment, advertising and promotion	36	28	26
Professional and other fees	32	30	8
Amortization of capital assets	7	6	7
Other	19	19	20
	<u>406</u>	<u>328</u>	<u>304</u>
NET INCOME	11 590	14 152	10 743
Retained earnings, beginning of year	<u>32 964</u>	<u>18 812</u>	<u>8 069</u>
RETAINED EARNINGS, END OF YEAR	<u><u>44 554</u></u>	<u><u>32 964</u></u>	<u><u>18 812</u></u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

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

	2007	2006	2005
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net income	11 590	14 152	10 743
Adjustment for:			
Amortization of premiums and discounts on investments	(93 847)	(77 310)	(52 712)
Gains on sale of investments	(1 338)	(1 165)	(887)
Unrealized exchange loss (gain) on investments	(149)	284	629
Amortization of deferred financial intermediaries' fees	29 686	24 509	16 969
Changes in assets and liabilities related to operating activities:			
Interest and dividends receivable in investments	254	22	(688)
Fees payable to the parent company	75	(61)	241
Fees payable to a related corporation, La Financière du Québec			(204)
Non-refundable financial contributions payable to Emploi-Québec	156	2 609	
Non-refundable financial contributions payable to the Ministère de l'Immigration et des Communautés culturelles	1 166		
Other liabilities	218	(285)	(103)
	<u>(52 189)</u>	<u>(37 245)</u>	<u>(26 012)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES			
Net decrease (increase) of short-term investments maturing more than three months after their acquisition date		397	(397)
Acquisition of investment	(506 326)	(543 765)	(740 555)
Sale of investment	274 872	107 456	100 916
Deferred financial intermediaries' fees	(30 942)	(32 057)	(37 872)
	<u>(262 396)</u>	<u>(467 969)</u>	<u>(677 908)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Long-term borrowings	534 800	522 400	721 200
Repayment of long-term borrowings	(216 000)	(24 000)	(13 200)
	<u>318 800</u>	<u>498 400</u>	<u>708 000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4 215	(6 814)	4 080
Cash and cash equivalents, beginning of year	2 649	9 463	5 383
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>6 864</u>	<u>2 649</u>	<u>9 463</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH AND CASH EQUIVALENTS			
Cash on hand	246	44	272
Short-term investment	<u>6 618</u>	<u>2 605</u>	<u>9 191</u>
	<u>6 864</u>	<u>2 649</u>	<u>9 463</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS**

as at March 31, 2007

(in thousands 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 immigrant investors. Among other things, it allocates the revenues generated by investing these sums to the financial assistance program for the companies it administers. Since January 26, 2005, under Order-in-Council 29-2005, a portion of the revenues generated by investing these amounts is also allocated, in the form of financial contributions, to the “Programme d’aide à l’intégration des immigrants et des minorités visibles en emploi” administered by Emploi-Québec and intended for companies as activities promoting business immigration of the Ministère de l’Immigration et des Communautés culturelles.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a strategic plan that includes the activities of its subsidiaries and whose form, content and frequency are set by the Gouvernement du Québec. This plan was approved on September 22, 2004 (Order-in-Council 878-2004) and terminated on March 31, 2007. Under section 47 of this same Act, this plan shall, on expiry, continue in force until a new plan is approved. A new plan was in the process of being approved at March 31, 2007.

2. MAIN ACCOUNTING PRINCIPLES**Use of estimates**

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

Cash and cash equivalents

It is the Corporation’s policy to present cash and short-term investments maturing within three months’ of their acquisition date under cash and cash equivalents.

Investments

Notes receivable from the Gouvernement du Québec are recorded at cost and purchase discounts are posted to results in accordance with the effective interest method until their maturity.

Other investments are recorded at acquisition cost and, where applicable, the discounts and premiums are posted to results in accordance with the straight-line method of discount amortization until their maturity date.

Financial intermediaries’ fees

The Corporation pays fees to financial intermediaries for canvassing immigrant investors, seeking businesses to recommend for non-refundable financial contributions and closing immigrant investors’ files.

Fees related to canvassing immigrant investors and seeking businesses to recommend are posted when the Corporation accepts the financial intervention. Fees related to canvassing immigrant investors are deferred and posted to results over a period corresponding to the duration of investments, i.e. five years, in accordance with the straight-line method. Fees for closing immigrant investors’ 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 authorizing disbursement of these contributions.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

2. MAIN ACCOUNTING PRINCIPLES (cont'd)**Financial contribution management fees – Parent company (cont'd)**

Fees related to analysis and authorization are posted when the Corporation accepts the financial intervention. Fees related to disbursements are recorded when each one is authorized.

Non-refundable financial contributions

Financial contributions to companies are posted to results in the fiscal year in which the Corporation authorized the disbursement. Financial contributions to Emploi-Québec are posted to results in the fiscal year in which the corresponding expenses were incurred by it. Financial contributions to the Ministère de l'Immigration et des Communautés culturelles are posted to results in the fiscal year in which its share in the income generated by the investment is reported.

Administrative fees – Parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share of the parent company's administrative costs and certain common costs attributable to the Corporation. These fees are recorded on an accrual basis.

Currency conversion

Monetary assets and liabilities in foreign currency are converted into Canadian dollars at the exchange rate in effect on the date of the financial statements. Revenues and expenses in foreign currency are converted into Canadian dollars at the exchange rate in effect on the date of the transaction. Exchange gains and losses are posted to results.

3. CHANGES IN ACCOUNTING POLICIES TO REFLECT ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION

In 2005, the Canadian Institute of Chartered Accountants published three new accounting standards: Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income. IQ Immigrants Investisseurs inc. must apply these standards no later than April 1, 2007. The effect of these standards on the financial statements cannot be determined since it depends on existing positions and their fair value at the time of the transition.

Financial Instruments – Recognition and Measurement

This new standard requires all financial instruments to be classified in one of the following categories: financial assets and liabilities held for transaction purposes, investments held until maturity, loans and receivables and other financial liabilities or financial assets available for sale. Financial assets and liabilities held for transaction purposes must be evaluated at fair value, gains and losses must be posted to results. Investments held until maturity, loans and receivables and other financial liabilities must be evaluated at unamortized cost. Financial assets available for sale must be evaluated at fair value, the resulting unrealized gains and losses must be recorded under other elements of comprehensive income. The standard can also choose to classify under instruments held for transaction purposes, any financial instrument when it is first reported.

Hedges

This new standard defines the application criteria for reporting on hedges for each category of hedge strategy allowed: fair value, cash flows and exchange risk linked to a net investment in an independent foreign establishment.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

3. CHANGES IN ACCOUNTING POLICIES TO REFLECT ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION (cont'd)*Comprehensive income*

Following the adoption of these standards, a new heading entitled "Other elements of comprehensive income" must be added to equity in the consolidated balance sheet. The main elements of this heading include unrealized gains and losses on financial assets available for sale, unrealized amounts linked to currency conversion, minus hedging operations, resulting from independent foreign establishments and the change in the fair value of the effective portion of cash flow hedging instruments.

4. INVESTMENTS

	<u>2007</u>	<u>2006</u>
Gouvernement du Québec notes receivable, 3.47% to 5.47%, maturing between April 2007 and March 2012, nominal value: \$2.7 billion	2 403 967	2 071 153
Bonds and other debt instruments, 3.47% to 11.00%, maturing between March 2008 and July 2031, nominal value: \$100.4 million	104 652	103 766
Money market securities – mutual funds	35 927	34 969
Shares and other equity interest	<u>27 704</u>	<u>35 574</u>
	<u><u>2 572 250</u></u>	<u><u>2 245 462</u></u>

The amount of investments in US dollars totalled \$7.3 million CAN at March 31, 2007 (\$10.3 million CAN at March 31, 2006).

Investments break down as:

Less than one year	332 315
From 1 to 2 years	546 183
From 2 to 3 years	673 275
From 3 to 4 years	499 296
From 4 to 5 years	452 750
From 5 to 10 years	4 684
More than 20 years	<u>116</u>
	2 508 619
No maturity date	<u>63 631</u>
	<u><u>2 572 250</u></u>

5. BANK LOAN

The Corporation has an annually renewable authorized bank credit line of \$2 million bearing interest at the prime lending rate (6.00% at March 31, 2007; 5.50% at March 31, 2006). At March 31, 2006 and 2007, it had not been used.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousand of dollars)

6. LONG-TERM BORROWINGS

	2007	2006
Notes – immigrant investors, interest-free, maturing between April 2007 and March 2012 ¹	<u>2 610 400</u>	<u>2 291 600</u>
Capital payments on long-term borrowings break down as:		
Less than one year		319 200
From 1 to 2 years		534 800
From 2 to 3 years		705 600
From 3 to 4 years		515 600
From 4 to 5 years		<u>535 200</u>
		<u>2 610 400</u>

1 Capital payments are guaranteed by Québec.

7. CAPITAL-STOCK

Authorized
An unlimited number of class A participating and voting shares with no nominal value.

	2007	2006
Issued and paid 1 000 class A shares	<u>1</u>	<u>1</u>

8. NON-REFUNDABLE FINANCIAL CONTRIBUTIONS

	2007	2006	2005
Financial contributions- Companies	43 127	34 857	20 968
Financial contributions – Emploi-Québec	5 576	2 609	
Financial contributions – Ministère de l'Immigration et des Communautés culturelles	<u>1 166</u>		
	<u>49 869</u>	<u>37 466</u>	<u>20 968</u>

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value determines the approximate value at which financial instruments could be exchanged between unrelated parties acting freely under fully competitive conditions in the normal course of business. The best indication of the fair value is the market price.

When it is available, the Corporation uses the market price at the date of the financial statements to assess the fair value of its financial instruments. When there are no markets or the markets are not considered sufficiently liquid, the Corporation measures the fair value by applying evaluation methods and using assumptions. Given the role of judgement in applying a great many acceptable techniques in evaluating and estimating fair value, they are not necessarily comparable between different entities. The fair value is based on the market value at a given point in time and does not necessarily reflect the future fair value of financial instruments. It cannot be interpreted as a realizable amount should instruments be settled immediately.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

The table below shows the fair value of the financial instruments disclosed in the financial statements, established using the evaluation methods and assumptions described below. The fair value of the assets and liabilities not considered financial instruments, i.e. deferred financial intermediaries' fees, is not included in the table.

Financial instruments disclosed in the financial statements

	2007			2006		
	Book Value	Fair value	Difference	Book value	Fair value	Difference
Assets						
Cash on hand and short-term investments	6 864	6 864		2 649	2 649	
Investments	2 572 250	2 578 958	6 708	2 245 462	2 244 118	(1 344)
Other assets	1 529	1 529		1 783	1 783	
	<u>2 580 643</u>	<u>2 587 351</u>	<u>6 708</u>	<u>2 249 894</u>	<u>2 248 550</u>	<u>(1 344)</u>
Liabilities						
Long-term borrowings	2 610 400	2 343 341	267 059	2 291 600	2 025 004	266 596
Other liabilities	5 501	5 501		3 886	3 886	
	<u>2 615 901</u>	<u>2 348 842</u>	<u>267 059</u>	<u>2 295 486</u>	<u>2 028 890</u>	<u>266 596</u>
			<u>273 767</u>			<u>265 252</u>

The fair value of the financial instruments disclosed in the financial statements has been estimated using the following evaluation methods and assumptions:

Cash and short-term investments, others assets and liabilities

Because they mature in the short term, the fair value of cash and short-term investments, other assets and liabilities is considered to be their book value.

Investments

The fair value of investments in securities is determined based on market prices in effect on the date of the financial statements. The fair value of notes receivable from the Gouvernement du Québec is estimated by assessing cash flows using market interest rates for investments with similar credit and risk conditions.

Long-term borrowings

The fair value of borrowings is determined using market prices for debt instruments with similar credit and risk conditions.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

10. INTEREST-RATE SENSITIVITY

The interest-rate risk resulting from the mismatch of various cash flows and its effects on the Corporation's financial results depend on changes in interest rates.

The Corporation's sensitivity to interest-rate changes at March 31 is:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rate	Total
Assets						
Cash on hand and short-term investments	6 618				246	6 864
Real interest rate	4.7 %					
Investments	93 402	238 912	2 171 942	4 363	63 631	2 572 250
Real interest rate	5.3 %	4.6 %	4.1 %	4.4 %		
Other assets					81 342	81 342
	<u>100 020</u>	<u>238 912</u>	<u>2 171 942</u>	<u>4 363</u>	<u>145 219</u>	<u>2 660 456</u>
Liabilities and equity						
Interest-free borrowings	90 400	228 800	2 291 200			2 610 400
Other liabilities					5 501	5 501
Equity					44 555	44 555
	<u>90 400</u>	<u>228 800</u>	<u>2 291 200</u>		<u>50 056</u>	<u>2 660 456</u>
Difference in sensitivity for 2007	<u>9 620</u>	<u>10 112</u>	<u>(119 258)</u>	<u>4 363</u>	<u>95 163</u>	
Difference in sensitivity for 2006	<u>3 205</u>	<u>3 373</u>	<u>(127 325)</u>	<u>6 671</u>	<u>114 076</u>	

11. COMMITMENTS

In the normal course of business, the Corporation contracts various commitments. These represent the amounts of non-refundable financial contributions whose disbursement has not been authorized and the amounts allocated to financial contributions to Emploi-Québec, which the latter has not spent. The total amount of these commitments does not necessarily represent future cash flow requirements, since some of them may be terminated without having generated disbursements.

The Corporation also agreed to pay fees to financial intermediaries for canvassing for immigrant investors, seeking out companies to recommend and closing immigrant investor files.

Commitments break down as:

	2007	2006
Non-refundable financial contributions - Companies	142 092	140 389
Non-refundable financial contributions– Emploi-Québec		1 507
Non-refundable financial contributions– Ministère de l'Immigration et des Communautés culturelles		199
Financial intermediaries' fees	34 867	24 339
	<u>176 959</u>	<u>166 434</u>

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

11. COMMITMENTS (cont'd)

Future estimated disbursements resulting from these commitments are:

Less than one year	77 002
From 1 to 2 years	44 772
From 2 to 3 years	31 892
From 3 to 4 years	17 922
From 4 to 5 years	<u>5 371</u>
	<u>176 959</u>

12. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. COMPARATIVE FIGURES

Certain 2005 and 2006 figures were reclassified for consistency with the presentation adopted in 2007.

IQ IMMIGRANTS INVESTISSEURS INC.**AUDITOR'S REPORT**

To IQ Immigrants Investisseurs inc. shareholders

I have audited the balance sheet of IQ Immigrants Investisseurs inc. as at March 31, 2007 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of IQ Immigrants Investisseurs inc. as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 22, 2007

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., c. L-0.1)

CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006 Adjusted (Note 4)
REVENUES		
Gouvernement du Québec contribution (Note 5)	317 798	306 227
Special Gouvernement du Québec contribution		10 000
Government of Canada contribution (Note 6)	302 543	353 214
Canadian Farm Income Stabilization Program participants' contributions	3 472	
Administrative fees	5 706	4 453
Interest and investment income	32 904	17 827
Other	672	345
	<u>663 095</u>	<u>692 066</u>
EXPENSES		
Contribution to the:		
Farm Income Stabilization Insurance Fund	268 822	260 840
Crop Insurance Fund	37 748	29 770
Farm and Forestry Loan Insurance Fund	8 800	9 781
Farm Income Stabilization Account	19	12
Canadian Farm Income Stabilization Program (Note 7)	374 970	293 747
Contribution to interest payments	3 001	1 808
Subsidy – Young farmers' financial support program	10 349	10 725
Special federal programs (Note 8)	6 036	73 801
Other programs (Note 9)	14 318	4 412
Contribution to financing of organizations	2 620	2 100
Administrative expenses (Note 10)	55 786	53 971
Interest	17 507	8 109
Loss in value of investments	932	283
	<u>800 908</u>	<u>749 359</u>
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE SHARE AND SHARE OF SHAREHOLDER WITHOUT CONTROL	137 813	57 293
Share in satellite corporation losses	<u>237</u>	<u>200</u>
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE SHARE OF SHAREHOLDER WITHOUT CONTROL	138 050	57 493
Share of shareholder without control	<u>75</u>	
DEFICIENCY OF REVENUES OVER EXPENSES	<u><u>137 975</u></u>	<u><u>57 493</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED STATEMENT OF CUMULATED DEFICIT
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> Adjusted (Note 4)
CUMULATED SURPLUS, BEGINNING OF YEAR		
Previously established balance	54 711	108 792
Adjustment (Note 4)	<u>(3 412)</u>	<u></u>
Adjusted balance	51 299	108 792
DEFICIENCY OF REVENUES OVER EXPENSES	<u>(137 975)</u>	<u>(57 493)</u>
CUMULATED (DEFICIT) SURPLUS, END OF YEAR	<u>(86 676)</u>	<u>51 299</u>

General reserve (Note 11)

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at March 31, 2007

(in thousands of dollars)

	2007	2006 Adjusted (Note 4)
ASSETS		
Current assets		
Cash		35
Short-term investments (Note 12)	27 028	16 448
Accounts receivable and accrued interest	44 103	34 724
Funds receivables (Note 13)	608 043	416 775
Gouvernement du Québec receivable (Note 14)	1 115	1 115
Government of Canada receivable (Note 15)	161 989	66 311
Payments receivable on loans (Note 16)	1 206	1 376
Payments receivable on investments (Note 17)	676	374
Assets intended for sale (Note 18)	403	
	<u>844 563</u>	<u>537 158</u>
Gouvernement du Québec receivable (Note 14)	3 196	4 311
Loans (Note 16)	6 076	7 893
Investments (Note 17)	6 129	5 073
Capital assets (Note 19)	1 327	1 127
Intangible assets (Note 20)	<u>2 164</u>	<u>2 181</u>
	<u>863 455</u>	<u>557 743</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET (cont'd)
as at March 31, 2007
(in thousands of dollars)

	2007	2006 Adjusted (Note 4)
LIABILITIES		
Current liabilities		
Bank overdraft	506	
Bank loans (Note 21)	646 035	307 237
Accounts payable (Note 22)	11 817	49 475
Deferred federal assistance (Note 23)		21 988
Deferred provincial contribution (Note 24)	948	
Canadian Farm Income Stabilization Program participants' contributions	6 804	
Owed to the Funds (Note 25)	61 970	27 314
Owed to the Government of Canada	831	141
Owed to the Gouvernement du Québec (Note 26)	14 695	32
Contribution to the Canadian Agricultural Income Stabilization Program (Note 7)	180 260	65 277
Provision for vacation pay	5 009	4 711
	<u>928 875</u>	<u>476 175</u>
Owed to the Gouvernement du Québec (Note 26)	4 294	16 294
Provision for sick leave (Note 27)	14 671	13 975
	<u>947 840</u>	<u>506 444</u>
Share of shareholder without control	2 291	
CUMULATED (DEFICIT) SURPLUS	<u>(86 676)</u>	<u>51 299</u>
	<u>863 455</u>	<u>557 743</u>

COMMITMENTS (Note 30)
SUBSEQUENT EVENT (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 STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006 Adjusted (Note 4)
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	(137 975)	(57 493)
Cash flow-neutral items:		
Capitalized interest on investments	(109)	(143)
Amortization of capital assets	641	726
Amortization of intangible assets	742	761
Gain on sale of capital assets	(3)	(4)
Write-off and loss in value of investments	932	283
Share of satellite corporation loss	237	200
Share of shareholder without control	(75)	
Change in the deferred special Gouvernement du Québec contribution		(10 000)
	(135 610)	(65 670)
Change in non-cash items related operations:		
Accounts receivable and accrued interest	(9 379)	(2 874)
Advances to participants		29 867
Funds' receivable	(191 268)	(26 158)
Gouvernement du Québec receivable	1 115	1 785
Government of Canada receivable	(95 678)	(27 456)
Assets intended for sale	(403)	
Accounts payable	(37 674)	25 238
Deferred federal assistance	(21 988)	5 784
Deferred provincial contribution	948	
Deferred Canadian Farm Income Stabilization Program participants' contributions	6 804	
Owed to the Gouvernement du Québec	2 663	(316)
Owed to the Government of Canada	690	(115)
Owed to the Funds	34 656	(10 986)
Provision for the Canadian Agricultural Income Stabilization Program	114 983	50 915
Provision for compensation under bovine spongiform encephalopathy recovery programs		(229)
Provision for vacation time	298	61
Provision for sick leave	696	462
	(193 537)	45 978
Cash flows related to operating activities	(329 147)	(19 692)
INVESTMENT ACTIVITIES		
Cashing of loans	1 987	2 724
Acquisition of investments	(2 794)	(1 693)
Cashing of debenture investments	376	342
Acquisition of capital assets	(828)	(846)
Acquisition of intangible assets	(725)	(720)
Gain on the sale of capital assets	6	4
Cash flows related to investment activities	(1 978)	(189)
Amounts carried forward	(331 125)	(19 881)

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> Adjusted (Note 4)
Amounts brought forward	<u>(331 125)</u>	<u>(19 881)</u>
FINANCING ACTIVITIES		
Short-term borrowings	338 798	(3 740)
Issue of Class B shares by subsidiary	<u>2 366</u>	
Cash flows related to financing activities	<u>341 164</u>	<u>(3 740)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10 039	(23 621)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16 483</u>	<u>40 104</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>26 522</u></u>	<u><u>16 483</u></u>
 Closing cash and cash equivalents include:		
	<u>2007</u>	<u>2006</u>
Cash		35
Short-term borrowings	27 028	16 448
Bank overdraft	<u>(506)</u>	
	<u><u>26 522</u></u>	<u><u>16 483</u></u>
 Additional cash-flow information:		
Interest paid	<u><u>16 750</u></u>	<u><u>7 157</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION INSURANCE FUND**
STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
 for the year ended March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Participants' contributions (Note 28)	134 411	130 420
La Financière agricole du Québec contribution (Note 28)	268 822	260 840
Interest and investment income	<u>40</u>	<u>267</u>
	<u>403 273</u>	<u>391 527</u>
EXPENSES		
Compensation to participants (Note 28)	601 360	436 322
Interest – La Financière agricole du Québec	26 495	13 598
Other	<u>20</u>	<u></u>
	<u>627 875</u>	<u>449 920</u>
DEFICIENCY OF REVENUES OVER EXPENSES	(224 602)	(58 393)
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(372 384)</u>	<u>(313 991)</u>
CUMULATED DEFICIT, END OF YEAR	<u>(596 986)</u>	<u>(372 384)</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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand		86
Accounts receivable and accrued interest	3 217	4 766
La Financière agricole du Québec contribution receivable (Note 25)	53 022	4 560
Advances to participants (Note 29)	<u>166 137</u>	<u>225 674</u>
	<u>222 376</u>	<u>235 086</u>
LIABILITIES		
Current liabilities		
Bank overdraft	635	
Accounts payable (Note 22)	9 291	13 890
Owed to La Financière agricole du Québec (Note 13)	608 014	416 775
Deferred participants' contributions	112 890	111 379
Provision for compensation	<u>88 532</u>	<u>65 426</u>
	819 362	607 470
CUMULATED DEFICIT (Note 35)	<u>(596 986)</u>	<u>(372 384)</u>
	<u>222 376</u>	<u>235 086</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**
STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
 for the year ended March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u> Adjusted (Note 4)
REVENUES		
Participants' contributions	25 191	20 044
La Financière agricole du Québec contribution	37 748	29 770
Change in decrease in value of investments	4 493	4 149
Interest and investment income	<u>5 796</u>	<u>5 985</u>
	<u>73 228</u>	<u>59 948</u>
EXPENSES		
Compensation to participants	73 378	58 877
Interest on allowances	<u>18</u>	<u>4</u>
	<u>73 396</u>	<u>58 881</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	<u>(168)</u>	<u>1 067</u>
OPENING CUMULATED SURPLUS		
Previously established balance	72 117	74 462
Adjustment (Note 4)	<u>3 412</u>	<u></u>
Adjusted balance	<u>75 529</u>	<u>74 462</u>
CLOSING CUMULATED SURPLUS	<u><u>75 361</u></u>	<u><u>75 529</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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> Adjusted (Note 4)
ASSETS		
Current assets		
Cash	20	93
Short-term investments (Note 12)	13 818	
Accounts receivable and accrued interest	762	957
La Financière agricole du Québec contribution receivable (Note 25)	<u>8 948</u>	<u>19 806</u>
	23 548	20 856
Investments (Note 17)	<u>71 236</u>	<u>66 743</u>
	<u><u>94 784</u></u>	<u><u>87 599</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	1 267	114
Deferred participants' contributions	567	569
Provision for compensation	<u>9 705</u>	<u>3 503</u>
	11 539	4 186
Deferred federal assistance (Note 23)	7 884	7 884
CUMULATED SURPLUS	<u>75 361</u>	<u>75 529</u>
	<u><u>94 784</u></u>	<u><u>87 599</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**
STATEMENT OF CHANGE IN FUND BALANCE
 for the year March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	2 948	4 820
La Financière agricole du Québec contribution	19	12
Government of Canada transitional assistance		1
Interest distributed in participant accounts	57	45
Participant withdrawals	<u>(797)</u>	<u>(1 930)</u>
BALANCE, END OF YEAR	<u><u>2 227</u></u>	<u><u>2 948</u></u>

BALANCE SHEET
 as at March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	11	
Short-term borrowings (Note 12)	2 245	
La Financière agricole du Québec contribution receivable (Note 25)		<u>2 948</u>
	<u><u>2 256</u></u>	<u><u>2 948</u></u>
LIABILITIES		
Current liabilities		
Owed to La Financière agricole du Québec (Note 13)	29	
Participants' accounts	<u>2 227</u>	<u>2 948</u>
	<u><u>2 256</u></u>	<u><u>2 948</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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

(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, venture capital 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 stabilized 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 Program

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) Canadian Agricultural Income Stabilization Program (CAIS)

The Canadian Agricultural Income Stabilization Program is designed to offer farm operations a risk management tool based on the operation's aggregate income. For the 2006 contribution year, the program required participant's to contribute an amount calculated on its reference contribution margin.

V) 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 promote their reorientation to alternative crops. This program applies to operations participating in the Crop Insurance Program for the 2003 insurance year and was in effect from April 1, 2005 to March 31, 2007.

VI) Farm income payments program

The Farm income payments program is designed to attenuate farmers' problem of liquid assets and pave the way for the transition to farm income protection measures. The program has two intervention phases: 1) overall financial assistance for agricultural producers participating in the Farm Income Insurance Stabilization Program or the Farm Income Stabilization Account and 2) payment for cattle destined for cattle producers. The Government of Canada assumes all program costs.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 March 31, 2007
 (in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)**VII) Grain and oilseed producer payments program**

The Grain and oilseed producer payments program is designed to support grain operations suffering from a significant decline in income resulting from low market prices. The Government of Canada assumes all program costs.

VIII) 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.

IX) 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.

X) Young farmers' financial support program

The Young farmers' financial support program is designed to promote farm operation supervision and start-up, make it easier for young farmers to get started, encourage them to acquire proper training and promote development of farm operations through an additional contribution for interest payments or capital subsidies.

XI) Agroenvironmental and agricultural-environment wildlife habitat development incentive measures program

The Agroenvironmental and agricultural-environment wildlife habitat development incentive measures program is designed to support farm operation participating pilot projects in the context of a joint Fondation de la faune du Québec - Union des producteurs agricoles program. This five-year program ends on March 31, 2010.

XII) Goat milk operations financial assistance program

The Goat milk operations financial assistance program is designed to provide financial support to goat milk operation affected by fluctuations in the demand for goat milk. Financial assistance is granted in the form of a special contribution for interest payments applicable to a maximum of three years as of the date of the complete loan disbursement.

XIII) Supplemental maple product stocks stabilization program

The Supplemental maple product stocks stabilization program is designed to offer the maple production sector additional protection to that of the Canadian Agricultural Income Stabilization Program. More specifically, the program is designed to consolidate the sector's collective marketing structure, maple syrup market development and the increase in the revenues earned by producers. The financial assistance granted allows cost-sharing, with the Fédération des producteurs acéricoles du Québec of real stock management costs, financing of a production holiday, and maple syrup market development expenses. The program applies for a maximum of five years as of the 2005 marketing year and the total amount of financial assistance may not exceed \$25 million.

XIV) Large game operations financial assistance program

The Large game operations financial assistance program is designed to offer financial support to large game operations certified under the Fédération des éleveurs de grands gibiers du Québec's program. The financial assistance granted takes the form of a special contribution to interest payments. The program applies a maximum of two years as of the date the borrower obtains certification or March 31, 2009.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)

XV) Forestry financing program

La Financière agricole administers the forestry financing program for the Ministère des Ressources naturelles et de la Faune du Québec 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 to support the creation, maintenance or development of forest production units.

XVI) Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome

La Financière agricole administers phases I and II of the Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome (PMWS) for the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec.

Phase I is designed to grant financial assistance to feeder hog operations affected by the PMWS and registered for the CAIS and the Farm Income Stabilization Insurance Program for the contribution year 2005.

Phase II is designed to make it easier for operations affected by the PMWS to obtain financing from financial institutions by authorising a loan guarantee assumed by the Farm and Forestry Loan Insurance Fund to allow them to repay arrears on term loans and consolidate short-term credit linked to operating expenses. The loan offer includes a special contribution to interest payments over a 12-month period.

XVII) Contribution to Centre de recherche sur les grains inc. infrastructure program

The Contribution to Centre de recherche sur les grains inc. infrastructure program is designed to allow grain, corn grain and oilseed producers, through the Fédération des producteurs de cultures commerciales du Québec, to financially support this organization's expansion and relocation project, thereby helping to increase productivity, and develop and diversify production.

3. ACCOUNTING POLICIES

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

Cash flow statements

The statements of cash flows for the funds administered by La Financière agricole are not shown as they would not provide additional useful information on cash flows during the year.

LA FINANCIÈRE AGRICOLE DU QUÉBEC AND FARM INCOME STABILIZATION ACCOUNT FUND

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.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**LA FINANCIÈRE AGRICOLE DU QUÉBEC AND FARM INCOME STABILIZATION ACCOUNT FUND (cont'd)****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 Corporation 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 Corporation management's judgement.

The provision is established through a case-by-case analysis and posted as soon as the losses can be reasonably evaluated. The annual change in this provision is posted to the consolidated statement of income.

Assets intended for sale

Assets intended for sale are assessed at book value or fair value minus selling costs, whichever is less. The fair value is determined based on the price of similar goods.

Capital assets

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

Furniture and equipment	20%
Data processing equipment	33.33%
Weather stations	10%

Intangible assets

Intangible assets, representing the costs related to computer systems development, are recorded at cost and amortized over their estimated service life in accordance with the straight line method at 20%.

Contributions, allowances and transfer payments

Contributions, allowances and transfer payments are posted to expenditures for the fiscal year when authorized, when the beneficiary has met all the eligibility criteria and when it is possible to reasonably estimate the amounts in question.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

LA FINANCIÈRE AGRICOLE DU QUÉBEC AND FARM INCOME STABILIZATION ACCOUNT FUND (cont'd)

Pension plans

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

Cash and cash equivalents

It is La Financière agricole's policy to present bank balances and short-term investments that are easily convertibles in the short term into a know amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

FARM INCOME STABILIZATION INSURANCE FUND AND CROP INSURANCE FUND

Contributions and compensation

Contributions and compensation from the Farm Income Stabilization Insurance Program and allowances under the Crop Insurance Program are posted to revenues or expenses for the fiscal year in which the insurance year ends.

The year 2006 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 35.

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. CORRECTION OF ERRORS IN THE PREVIOUS FISCAL YEAR'S FINANCIAL STATEMENTS

The financial statements for the fiscal year ended March 31, 2006 for La Financière agricole du Québec and the Crops Insurance Fund were adjusted to make corrections in recording interest and investment income. These adjustments increased (decreased) the following items of the financial statements:

LA FINANCIÈRE AGRICOLE DU QUÉBEC	<u>2006</u>
Consolidated results	
Revenues	
Interest and investment income	(3 412)
Deficiency of revenues over expenses	3 412
Consolidated balance sheet	
Owed to the funds	(3 412)
Cumulated surplus	3 412

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

4. CORRECTION OF ERRORS IN THE PREVIOUS FISCAL YEAR'S FINANCIAL STATEMENTS (cont'd)

CROP INSURANCE FUND	<u>2006</u>
Result and cumulated surplus	
Revenues	
Interest and investment income	3 412
Excess of revenues over expenses	3 412
Balance sheet	
La Financière agricole du Québec contribution receivable	3 412
Cumulated surplus	3 412

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 an annual amount of \$305 million to and for the benefit of the Corporation.

The Minister of National Resources and Wildlife of Québec and La Financière agricole du Québec had signed a three-year agreement ending March 31, 2007, which was renewed for fiscal 2007-2008. Under it, the Department pays an annual amount of \$1 400 K for an on behalf of the Corporation.

	<u>2007</u>	<u>2006</u>
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec contribution under:		
agreement:	305 000	305 000
bovine spongiform encephalopathy recovery programs		(173)
Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome:		
- Phase I	11 377	
- Phase II	21	
Ministère des Ressources naturelles et de la Faune du Québec contribution	<u>1 400</u>	<u>1 400</u>
	<u>317 798</u>	<u>306 227</u>

On May 31, 2006, the Corporation asked for a one-time contribution of \$218.6 million from the Québec Minister of Agriculture, Fisheries and Food under section 3.4 of the agreement, corresponding to the exceptionally unfavourable circumstances that prevailed in slaughter beef and grain sectors, which had a significant impact on the Corporation's financial framework. At March 31, 2007, the Corporation had not received the Gouvernement du Québec's response regarding the potential payment of this contribution.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

6. GOVERNMENT OF CANADA CONTRIBUTION

The Government of Canada contribution is established in keeping with the following agreements:

	2007	2006
Federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century:		
production insurance for:		
contribution to the insurance plan	22 455	17 452
contribution to administration	10 892	8 332
Canadian Agricultural Income Stabilization Program for:		
contribution to program	222 898	176 248
contribution to administration	3 827	5 011
provincial programs		30 400
	<u>260 072</u>	<u>237 443</u>
Canada-Québec agreement on transitional assistance for contribution to operations having participated in the Farm Income Stabilization Account	<u>9</u>	<u>(29)</u>
Canada-Québec agreement establishing the bovine spongiform encephalopathy recovery program		<u>6 417</u>
Canada-Québec agreement on the farm income payments program on:		
overall financial assistance for:		
contribution to the Farm Income Stabilization Insurance Program		35 323
contribution to operations having participated in the Farm Income Stabilization Account	5	18 095
payment for livestock		16 487
contribution to administration	<u>145</u>	<u>217</u>
	<u>150</u>	<u>70 122</u>
Canada-Québec agreement on the grain and oilseed producers payments programs on:		
contribution to the program	6 022	39 234
contribution to administration	<u>123</u>	<u>27</u>
	<u>6 145</u>	<u>39 261</u>
Canada-Québec agreement on the CAIS transition initiative for inventory evaluation for:		
contribution to the Farm Income Stabilization Insurance Program	19 838	
contribution to the Canadian Agricultural Income Stabilization Program	16 247	
contribution to administration	<u>82</u>	
	<u>36 167</u>	
	<u>302 543</u>	<u>353 214</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

6. GOVERNMENT OF CANADA CONTRIBUTION (cont'd)

The federal contribution was allocated to the following programs:

	2007	2006
Farm Income Stabilization Insurance Program	19 838	72 182
Crop Insurance Program	33 347	25 784
Canadian Agricultural Income Stabilization Program	243 054	181 259
Bovine Spongiform Encephalopathy Recovery Program		(42)
Government of Canada transition assistance program	9	(29)
Farm Income Payments Program	150	34 799
Grain and Oilseed Producers Payments Program	6 145	39 261
	<u>302 543</u>	<u>353 214</u>

7. CANADIAN FARM INCOME STABILIZATION PROGRAM

The estimates for the CAIS provision and the related Government of Canada contribution are subject to measurement uncertainty. These estimates can change substantially in the future if the information used by management to establish these evaluations changes significantly. The program spending can be higher or lower than the estimate since the evaluation is carried out before all of the information required to process a claim has been validated.

As of this fiscal year, the CAIS provision and the related Government of Canada contribution include \$192 542 K and \$115 525 K respectively for the contribution year ended during the fiscal year, given that it is now possible to make a reasonable estimate.

8. SPECIAL FEDERAL PROGRAMS

	2007	2006
Industry transition assistance program		(17)
Net income stabilization account		31
Government of Canada transition assistance program	9	(29)
Farm Income Payments Program	5	34 582
Grain and Oilseed Producers Payments Program	6 022	39 234
	<u>6 036</u>	<u>73 801</u>

9. OTHER PROGRAMS

	2007	2006
Compensation under programs to help the industry adjust in the wake of bovine spongiform encephalopathy		(215)
Flue-cured tobacco productive acreage withdrawal program	359	4 623
Agroenvironmental and agricultural-environment wildlife habitat development incentive measures program	6	4
Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome – Phase I	11 377	
Supplemental maple product stocks stabilization program	2 576	
	<u>14 318</u>	<u>4 412</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

10. ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	43 371	41 192
Transport and communication	3 746	2 970
Rent	3 381	3 430
Professional and administrative services	2 720	2 538
Materials and supplies	935	1 148
Maintenance and repairs	250	1 206
Amortization of capital assets	641	726
Amortization of intangible assets	742	761
	<u>55 786</u>	<u>53 971</u>

Administrative expenses break down as:

	2007	2006
Farm Income Insurance Stabilization Program	7 142	8 538
Crop Insurance Program	18 153	13 886
Canadian Agricultural Income Stabilization Program	8 903	9 951
Forest and Farm Financing	20 088	19 937
Farm Income Stabilization Account	44	193
BSE Recovery Program		46
Farm Income Payments Program		363
Grain and Oilseed Producers Payments Program	124	45
Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome	185	
CAIS transition initiative for inventory evaluation	82	
Capital Financière agricole inc.	<u>1 065</u>	<u>1 012</u>
	<u>55 786</u>	<u>53 971</u>

11. GENERAL RESERVE

La Financière agricole du Québec set up a general reserve to cover the risks related to its future contribution to the Farm Income Stabilization Insurance Program. Although the terms and conditions stipulated in the rate-setting methodology of the program establishing the general reserve at \$97 780 K at March 31, 2007 (2006: \$98 834 K), the latter may not exceed the surplus at this date. The general reserve was zero at March 31, 2007 (adjusted 2006: \$51 299 K).

12. SHORT-TERM INVESTMENTS

La Financière agricole du Québec

	2007	2006
Banker's acceptance		3 690
Commercial papers, 4.47% to 4.48%, maturing up to June 28, 2007	27 028	12 693
Caisse de dépôt et placement du Québec: Demand deposits		65
	<u>27 028</u>	<u>16 448</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

12. SHORT-TERM INVESTMENTS (cont'd)**Crop Insurance Program**

	<u>2007</u>	<u>2006</u>
Commercial papers, 4.48%, maturing up to June 21, 2007	13 799	
Caisse de dépôt et placement du Québec: Demand deposits, 4.25%	<u>19</u>	
	<u>13 818</u>	

Farm Income Stabilization Account

	<u>2007</u>	<u>2006</u>
Commercial papers, 4.46%, maturing April 19, 2007	<u>2 245</u>	

13. FUNDS' RECEIVABLE

	<u>2007</u>	<u>2006</u>
Farm Income Stabilization insurance Fund: Bearing interest at rates varying between 4.12% and 4.51%, maturing up to May 28, 2007	608 014	416 775
Farm Income Stabilization Account: interest-free and no repayment terms	<u>29</u>	
	<u>608 043</u>	<u>416 775</u>

14. GOUVERNEMENT DU QUÉBEC RECEIVABLE

	<u>2007</u>	<u>2006</u>
Accumulated sick leave paid by the Gouvernement du Québec	4 311	5 426
Portion maturing in the short-term	<u>(1 115)</u>	<u>(1 115)</u>
	<u>3 196</u>	<u>4 311</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

15. GOUVERNEMENT DU CANADA RECEIVABLE

	2007	2006
Federal-Provincial-Territorial framework agreement on the farm and agrifood strategic framework for the 21st century on:		
Production insurance	3 029	
Canadian Agricultural Income Stabilization Program	140 391	65 850
Canada-Québec agreement on the CAIS transition initiative for inventory evaluation	18 547	
Canada-Québec agreement on the Farm Income Payments Program		233
Canada-Québec agreement on industry transition assistance		173
Canada-Québec agreement on the Grain and Oilseed Producers Payments Program		27
Canada-Québec agreement setting up the BSE Recovery Program	22	28
	<u>161 989</u>	<u>66 311</u>

16. LOANS

	2007	2006
Balance of loans bearing interest at rates of:		
2.5%	3 136	3 933
5%	762	911
7%	732	920
8%	2 556	3 327
Prime rate plus 0.5%	96	178
	<u>7 282</u>	<u>9 269</u>
Portion maturing in the short term	<u>(1 206)</u>	<u>(1 376)</u>
	<u>6 076</u>	<u>7 893</u>
Balance of loans maturing in:		
	2007	2006
Less than 1 year	94	80
between 1 and 5 years	1 118	1 637
5 years and more	<u>6 070</u>	<u>7 552</u>
	<u>7 282</u>	<u>9 269</u>

Principal and interest are guaranteed by the Gouvernement du Québec's Consolidated Revenue Fund or the Farm and Forestry Loan Insurance Fund. These loans were granted under the Farm Credit Act and the Forestry Credit Act, which were no longer effective as of August 10, 1988 and June 29, 1984 respectively, and will mature no later than 2019 and 2038.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

17. INVESTMENTS**La Financière agricole du Québec**

	2007	2006
Common shares – investments	1 150	1 300
Common shares – satellite corporation	76	200
	<u>1 226</u>	<u>1 500</u>
Debentures, 9% to 15%, maturing up to April 2015		
Principal and capitalizable interest are cashable as follows:		
\$676 302 in 2008, \$825 164 in 2009,		
\$900 662 in 2010, \$860 091 in 2011		
and \$2 316 774 in future fiscal years	5 824	4 186
Provision for losses	<u>(245)</u>	<u>(239)</u>
	5 579	3 947
Portion maturing in the short-term	<u>(676)</u>	<u>(374)</u>
	<u>4 903</u>	<u>3 573</u>
	<u>6 129</u>	<u>5 073</u>

At March 31, 2007, debentures posted under a provision for losses totalled \$725 K (2006: \$389 K).

Under a Gouvernement du Québec order-in-council, dated December 11, 2002, the Corporation 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.

Farm Insurance Fund

Participation deposits, held for transaction purposes, 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.

	2007	2006
Participation deposits at fair value	<u>71 236</u>	<u>66 743</u>

18. ASSETS INTENDED FOR SALE

In March 2007, the Corporation acquired a block of assets representing an operating unit in the hog industry. Management does not intend to operate the farm and intends to sell these assets in the short term. The assets are reported at acquisition cost.

The Farm and Forestry Loan Insurance Fund must reimburse the Corporation for the amount of losses and eligible expenses under the Regulation, under section 18 of the Farm and Forestry Loan Insurance Fund. Further, the amounts recovered by the Corporation are returned to the Fund up to the amount used to protect the receivable.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

19. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Furniture and equipment	609	327	282
Data processing equipment	2 816	2 200	820
Weather stations	435	6	25
	<u>3 860</u>	<u>2 533</u>	<u>1 127</u>

20. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Computer development	<u>7 026</u>	<u>4 862</u>	<u>2 164</u>

21. SHORT-TERM BORROWINGS

	2007	2006
Banker's acceptance – financial institution, 4.38%, maturing April 27, 2007	5 981	7 458
Discount notes – related parties, 4.35% to 4.4%, maturing up to June 19, 2007	484 954	9 979
Notes at par value		
Gouvernement du Québec Financing Fund, 4.39% to 4.41%, maturing up to May 28, 2007	<u>155 100</u>	<u>289 800</u>
	<u>646 035</u>	<u>307 237</u>

Under Gouvernement du Québec orders-in-council dated December 11, 2002 and February 26, 2003, the Corporation 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.

On December 12, 2006, under Order-in-Council 1131-2006, the Gouvernement du Québec temporarily authorized an increase in the Corporation's authorized borrowings of \$346 million, maturing on April 30, 2007 (2006: \$65 million, maturing on April 30, 2006).

At March 31, 2007, the Corporation held financial agreements with five financial institutions and the Financing Fund for authorized amounts totalling \$1 723 million (2006: \$713 million) and \$729 million (2006: \$448 million). The amounts used bear interest at the lender's base rate.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

22. ACCOUNTS PAYABLE**La Financière agricole du Québec**

	2007	2006
Canadian Agricultural Income Stabilization Program	1 592	2 293
Contribution to payment of interest	892	625
Subsidy – Young farmers' financial support program	3 175	3 716
Grain and Oilseed Producers Payments Program	11	39 234
Salaries and fringe benefits	643	1 127
Suppliers	3 785	1 365
Interest on short-term borrowings	757	952
Other	962	163
	<u>11 817</u>	<u>49 475</u>

Farm Income Stabilization Insurance Fund

	2007	2006
Contribution credits for amounts received under Canada Québec agreements on:		
the additional federal contribution to the Farm Income Stabilization Insurance Plan	751	752
Transition assistance	91	92
BSE Recovery Program	26	1 904
Farm Income Payments Program	65	3 039
CAIS transition initiative for inventory evaluation	6 805	
Accounts payable	<u>1 553</u>	<u>8 103</u>
	<u>9 291</u>	<u>13 890</u>

Credits for contributions are remitted to farm operations when advances and final settlements are paid.

During the year, \$9 919 K was allocated to Farm Income Stabilization Insurance Program participants as contribution credits for the 2005-2006 program year under the Canada-Québec agreement on the CAIS transition initiative for inventory evaluation.

23. DEFERRED FEDERAL ASSISTANCE**La Financière agricole du Québec**

	2007	2006
Contribution to Canadian Farm Income Stabilization Program		<u>21 988</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

23. DEFERRED FEDERAL ASSISTANCE (cont'd)**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 K 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.

24. DEFERRED PROVINCIAL CONTRIBUTION

The deferred provincial contribution represents the unused contribution of Phase II of the Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome.

25. OWED TO THE FUNDS

	2007	2006 Adjusted (Note 4)
Farm Income Stabilization Insurance Fund:		
Note, 4.41%, maturing April 2, 2007	47 290	
Interest-free, no repayment terms	5 732	4 560
	53 022	4 560
Crop Insurance Fund:		
Interest-free, no repayment terms	8 948	11 905
Other		7 901
	8 948	19 806
Farm Income Stabilization Account Fund:		2 948
	61 970	27 314

24. OWED TO THE GOUVERNEMENT DU QUÉBEC

	2007	2006
Interest-free, no repayment terms	6 989	4 326
Advance agreed 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
	18 989	16 326
Portion maturing in the short-term	(14 695)	(32)
	4 294	16 294

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

27. PROVISION FOR SICK LEAVE

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	13 975	13 513
Annual expenses	1 458	1 410
Benefits paid	<u>(762)</u>	<u>(948)</u>
Balance, end of year	<u><u>14 671</u></u>	<u><u>13 975</u></u>

28. 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.

Compensations in the amount of \$879 707 K (2006: \$619 256 K) and contributions of \$681 580 K (2006: \$574 194 K) were reduced respectively by \$278 347 K (2006: \$182 934 K) following payments under the PCSRA. These reductions may be higher or lower than the estimated amount since they are inherent in the CAIS provision.

29. ADVANCES TO PARTICIPANTS

Advances to participants represent a portion of the compensation paid as a down payment for those productions whose insurance year ends in a subsequent fiscal year.

	<u>2007</u>	<u>2006</u>
Grain, grain-corn and soybean producers	162 093	218 144
Apples	<u>4 044</u>	<u>7 530</u>
	<u><u>166 137</u></u>	<u><u>225 674</u></u>

30. COMMITMENTS

La Financière agricole commitments under the Young farmers' financial support program, as capital subsidies posted to fiscal years ending March 31, 2008, 2009 and 2010, total \$6 939 K (2006: \$6 509 K).

Commitments under the Centre de recherche sur les grains inc. Infrastructure Contribution Program are \$1 120 K for each of the two next fiscal years. The amount granted for this year is \$1 120 K.

Commitments related to the Centre d'études sur les coûts de production en agriculture for the next fiscal year total \$1 100 K. The amount granted for this year is \$1 500 K.

Commitments under the Supplemental maple stocks stabilization program as financial assistance for the marketing year 2006 totalled \$1 776 K at March 31, 2007.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

31. PENSION PLANS

La Financière agricole staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

La Financière agricole contributions charged to the year-end statement totalled \$1 843 K (2006: \$1 830 K). Its liability towards these Government plans is restricted to its employer contributions.

32. RELATED PARTY TRANSACTIONS

The main related party transactions are as follows, with the exception of fund operations, presented separately in the financial statements:

	2007	2006
Rent and new layout expenses - Société immobilière du Québec	3 282	4 330
Supplies and communication – Centre des services partagés du Québec	1 180	1 696
Contribution to financing organizations – Centre d'études sur les coûts de production en agriculture	1 500	1 100

In addition to the related party transactions disclosed in its consolidated statements and measured at exchange value, La Financière agricole is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. La Financière agricole did not 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.

33. 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 Corporation 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.
- The fair value of common shares net transacted on active markets is deemed to equal their book value, given the difficulty of establishing a reasonable estimate for them.
- The fair value of debentures is obtained by capitalizing cash flows at the market interest rate at year-end for corresponding terms.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

33. FINANCIAL INSTRUMENTS (cont'd)**Fair value (cont'd)**

The fair values of the receivable and Gouvernement du Québec advance cannot reasonably be estimated given the absence of a market.

	2007		2006	
	Book value	Fair value	Book value	Fair value
Loans	7 282	6 979	9 269	8 851
Common shares	1 226	1 226	1 500	1 500
Debentures	5 579	5 488	3 947	3 803
Gouvernement du Québec receivable	3 196	3 196	4 311	4 311
Owing to the Gouvernement du Québec	4 294	4 294	16 294	16 294

Credit risk

The Corporation 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 Corporation is exposed to the economic conditions affecting the sectors in which it exercises its activities. Their total portfolio value is distributed among the following four sectors:

	2007	2006
Food processing	84.6%	77.4%
Food distribution	5.3%	12.6%
Agricultural production	7.2%	10.0%
Upstream of agriculture	2.9%	

Interest-rate risk

The Corporation is exposed to an interest-rate risk linked to market fluctuations, which can affect cash flows generated by an increase in the contribution to interest payments.

34. SUBSEQUENT EVENT

On March 31, 2008, the agreement between the Québec Minister of Agriculture, Fisheries and Food and La Financière agricole du Québec expired. Section 5.2 of this agreement states that as of April 1, 2006, the parties shall take measures to reach a new agreement. At March 31, 2007, the parties had begun discussions with a view to establishing a new agreement.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

35 CONTINUITY - FARM INCOME STABILIZATION INSURANCE FUND

<u>Insurable product</u>	Balance surplus (deficit) as at March 31, 2006	<u>Contributions</u>	<u>Allowances</u>	Interest and other charges	Balance surplus (deficit) as at March 31, 2007
Feeder calves	(59 315)	85 282	89 556	(2 909)	(66 498)
Slaughter cattle and steers	(21 496)	43 334	52 983	(1 621)	(32 766)
Veal calves	(22 104)	38 995	32 579	(1 435)	(17 123)
Grain-fed calves	641	9 558	9 887	(115)	197
Piglets	6 998	(7 371)	61 357	(298)	(62 028)
Hogs	14 743	(17 359)	84 281	(2 533)	(89 430)
Lambs	(1 914)	16 475	17 617	(20)	(3 076)
Potatoes	(10 070)	3 474	(4 281)	(303)	(2 618)
Grain, grain-corn and soybeans	(275 160)	228 860	249 230	(16 756)	(312 286)
Apples	(4 707)	1 985	8 151	(485)	(11 358)
	<u>(372 384)</u>	<u>403 233</u>	<u>601 360</u>	<u>(26 475)</u>	<u>(596 986)</u>

<u>Insurable product</u>	<u>Current insurance year</u>	<u>Period covered by insurance year</u>
Feeder calves	2006	January 1, 2006 to December 31, 2006
Slaughter cattle and steers	2006	January 1, 2006 to December 31, 2006
Veal calves	2006	January 1, 2006 to December 31, 2006
Grain-fed calves	2006	January 1, 2006 to December 31, 2006
Piglets	2006	January 1, 2006 to December 31, 2006
Hogs	2006	January 1, 2006 to December 31, 2006
Lambs	2006	January 1, 2006 to December 31, 2006
Potatoes	2005	August 1, 2005 to July 31, 2006
Grain	2005	August 1, 2005 to July 31, 2006
Grain-corn	2005	October 1, 2005 to September 30, 2006
Soybeans	2005	September 1, 2005 to August 31, 2006
Canola	2005	August 15, 2005 to August 14, 2006
Apples	2005	August 15, 2005 to August 14, 2006

36. COMPARATIVE FIGURES

Certain figures from previous fiscal years were reclassified for consistency with this year.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of La Financière agricole du Québec and the funds it administers were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

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

La Financière agricole du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it, and with various Canada-Québec agreements. At least every five years, it must conduct an actuarial analysis of its operations and collate any information useful for setting contribution rates for the insurance or farm income protection program.

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

The Auditor General of Québec has audited the financial statements of La Financière agricole du Québec and the funds it administers in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the budgetary monitoring and auditing committee to discuss any matter related to the audit.

On behalf of La Financière agricole du Québec and the funds it administers,
Jacques Brind'Amour, President and Chief Executive Officer
Jean-Marc Lacasse, Vice-President, Corporate Affairs

Lévis, May 29, 2007

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 balance sheets of the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account as at March 31, 2007 and the consolidated statements of operations, cumulated deficit and cash flows of La Financière agricole du Québec, the statement of operations and cumulated deficit of the Farm Income Stabilization Insurance Fund, the statement of operations and cumulated surplus of the Crop Insurance Fund, and the statement of changes in the balance of the Farm Income Stabilization Account for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these 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, 2007 and the results of their operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 29, 2007

LOTO-QUÉBEC
(R.S.Q., c. S-13.1)

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
REVENUES	3 798 832	4 016 030
COST OF SALES (Note 3)	1 434 688	1 483 521
GROSS MARGIN	2 364 144	2 532 509
OPERATING EXPENSES		
Operating costs	657 926	668 484
Depreciation and amortization of property, plant and equipment	80 742	84 754
Amortization of intangible assets	11 557	9 920
Interest – net (Note 4)	14 976	11 473
	765 201	774 631
EARNINGS BEFORE THE UNDERNOTED	1 598 943	1 757 878
Special payments (Note 5)	32 008	32 459
Goods and Services Tax	44 073	51 964
Québec Sales Tax	55 814	59 512
Share in a company subject to significant influence Moliflor Loisirs Développement	(1 017)	
	130 878	143 935
NET EARNINGS	1 468 065	1 613 943

SEGMENTED INFORMATION (Note 23)

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
BALANCE, BEGINNING OF YEAR	134 776	134 852
Net earnings	1 468 065	1 613 943
	1 602 841	1 748 795
Dividends	(1 391 000)	(1 537 000)
Fonds d'aide à l'action communautaire autonome (Note 6)	(13 126)	(13 324)
Fonds d'aide à l'action humanitaire internationale (Note 6)	(2 625)	(2 665)
Contributions to the Government of Québec (Note 7)	(61 008)	(61 030)
	(1 467 759)	(1 614 019)
BALANCE, END OF YEAR	135 082	134 776

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

LOTO-QUÉBEC

CONSOLIDATED BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand – casinos	52 683	48 764
Cash	19 783	
Accounts receivable (Note 8)	81 633	72 470
Inventories (Note 9)	10 729	12 751
Prepaid expenses	26 876	26 320
Land held for sale		2 077
	<u>191 704</u>	<u>162 382</u>
Investments (Note 10)	145 327	128 868
Property, plant and equipment (Note 11)	669 359	644 012
Intangible assets (Note 12)	70 571	69 858
Deferred charges	<u>654</u>	
	<u><u>1 077 615</u></u>	<u><u>1 005 120</u></u>
LIABILITIES		
Current liabilities		
Bank overdraft		15 563
Bank loans (Note 13)	617 815	586 578
Prizes to winners	58 307	70 294
Accounts payable and accrued charges (Note 14)	234 661	166 846
Provisions related to prizes (Note 15)	14 818	11 759
Deferred revenues	<u>16 762</u>	<u>19 134</u>
	<u>942 363</u>	<u>870 174</u>
SHAREHOLDER'S EQUITY		
Share capital authorized, issued and paid:		
1 700 shares of a par value of \$100 each	170	170
Retained earnings	<u>135 082</u>	<u>134 776</u>
	<u>135 252</u>	<u>134 946</u>
	<u><u>1 077 615</u></u>	<u><u>1 005 120</u></u>

COMMITMENTS (Note 16)

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

Approved by the board of directors
Alain Cousineau, Chairman of the Board
Robert Crevier, Board Member

LOTO-QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net earnings	1 468 065	1 613 943
Items not affecting cash:		
Depreciation and amortization of property, plant and equipment and intangible assets	92 299	94 674
Loss on disposal of property, plant and equipment and intangible assets	6 733	
Net contribution to Manoir Richelieu, Limited Partnership	7 524	7 951
Share in company subject to significant influence, Moliflor Loisirs Développement	(1 017)	
Interest revenue on long-term investment, Moliflor Loisirs Développement	(7 104)	
Unrealized exchange gain, Moliflor Loisirs Développement	(8 066)	
Changes in non-cash operating working capital items (Note 18)	<u>(14 062)</u>	<u>(11 026)</u>
Cash flows from operating activities	<u>1 544 372</u>	<u>1 705 542</u>
FINANCING ACTIVITIES		
Dividends paid	(1 331 000)	(1 613 000)
Bank loans	31 237	87 213
Contributions to the Government of Québec	(61 008)	(61 030)
Fonds d'aide à l'action communautaire autonome	(13 126)	(13 324)
Fonds d'aide à l'action humanitaire internationale	<u>(2 625)</u>	<u>(2 665)</u>
Cash flows used in financing activities	<u>(1 376 522)</u>	<u>(1 602 806)</u>
INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment (Note 18)	(114 811)	(42 855)
Acquisitions of intangible assets (Note 18)	(11 555)	(9 999)
Acquisitions of deferred charges	(654)	
Proceeds from disposal of property, plant and equipment and intangible assets	2 341	
Acquisition of investments	<u>(3 906)</u>	<u>(90 491)</u>
Cash flows used in investing activities	<u>(128 585)</u>	<u>(143 345)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	39 265	(40 609)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>33 201</u>	<u>73 810</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 18)	<u><u>72 466</u></u>	<u><u>33 201</u></u>

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

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2007

(in thousands of dollars)

1. INCORPORATION AND ACTIVITIES

The Société des loteries du Québec (the Corporation), designated under the name Loto-Québec, is a joint-stock company whose shares are part of the public domain and are attributed to Finance Québec. Under An Act respecting the Société des loteries du Québec (R.S.Q., chapter S-13.1), the functions of the Corporation are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. The Corporation may also offer, for consideration, consulting and implementation services in matters within its competence. Under the Income Tax Act, (R.S.C., (1985), c. 1 (5th supplement)) and the Taxation Act (R.S.Q., c. I-3), the Corporation is exempt from income taxes.

2. ACCOUNTING POLICIES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates.

Consolidation

The consolidated financial statements include the accounts of the Corporation and those of its wholly owned subsidiaries as follows:

- Lotim inc. ⁽¹⁾	- World Gaming Consultants, inc.
- La Société des casinos du Québec inc.	- 9059-3849 Québec inc.
- Casiloc inc.	- Casino Mundial inc.
- La Société des loteries vidéo du Québec inc.	- Casino Capital 2006 inc.
- Resto-Casino inc.	- Technologies Nter, société en commandite
- Ingenio, filiale de Loto-Québec inc.	- Technologies Nter inc.
- La Société des bingos du Québec inc.	

The investments in Manoir Richelieu, Limited Partnership, 9064-1812 Québec Inc., General Partner and Moliflor Loisirs Développement are recorded at the equity method.

- (1) Based on the audited financial statements as at December 31, 2006 and adjusted with the unaudited interim results as at March 31, 2007.

Revenues*Lotteries*

Revenues from the sale of lottery tickets and bingo cards are recorded on the date of the draw, with the exception of instant lottery ticket sales, which are recorded at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, with the exception of instant lotteries, are recorded as deferred revenues. Retailers' commissions as a result of these sales are carried to prepaid expenses.

Casinos and video Lotteries

Revenues from the operations of these business segments correspond to the difference between the lottery pools and the prizes awarded.

Restaurants and lodging

Revenues are recognized when services are rendered to customers, when the selling price has been fixed or determinable and collection is reasonably assured.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Revenues (cont'd)***Multimedia*

Revenues consist primarily of royalties. These royalties are recognized as they are earned in accordance with the contractual agreements specific to each of the agreements signed with the various business partners.

Other revenues are recognized when the significant risks and rewards of ownership have been transferred to the buyer or when the services have been rendered to customers. The selling price must be fixed or is determinable and collection reasonably assured.

International

These revenues stem from the provision of services related to the operations of Moliflor Loisirs Développement, services that draw on the Corporation's experience and know-how in casino-related areas as well as in the hotel, restaurant, and entertainment business.

The provision of services covers the salary of one director assigned to the external growth of Moliflor Loisirs Développement, including travel, lodging and living expenses.

A second provision of services involves the fees equal to the number of hours devoted by the Corporation's other employees multiplied by the hourly rate agreed to by the parties as well as travel and lodging expenses.

Cost of sales*Lotteries and bingo*

Prizes awarded from ticket sales related to bingo products are determined using a theoretical rate applied to sales.

In addition to lottery prizes payable in cash or merchandise, the Corporation also awards free tickets. The value of these prizes is equal to the selling price and is included in revenue sales and prizes awarded as expenses.

Casinos

Promotional discounts correspond to the cash amounts paid to casino players.

Commodity taxes

Taxes paid on products and services acquired and attributable to gaming activities are not recoverable by the Corporation. These taxes are recorded as part of the cost of the item to which they relate.

Furthermore, rather than collecting the Québec Sales Tax (QST) and Goods and Services Tax (GST) on revenues generated by gaming activities, the Corporation pays the taxes normally payable by the consumer and absorbs the cost. These taxes are presented separately in the consolidated statement of earnings.

Net taxes attributable to gaming activities therefore represent approximately 30% of the bulk of taxable gaming expenses, while those related to non-gaming activities are calculated in the same way as those for other entities subject to commodity taxes.

Pension plans

Defined contribution plan accounting is applied to a multiemployer governmental defined benefit plan for which Loto-Québec has insufficient information to apply defined benefit plan accounting.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Inventories***Lotteries and video lotteries*

Inventories are comprised of modules for game terminals and video lottery terminals and are valued at the lower of cost or market (cost being the replacement cost). Cost is determined using the average cost method.

Restaurants

Inventories are valued at the lower of cost or market (cost being the net realizable value or replacement cost). The cost of food and beverages is established based on the average cost.

Property, plant and equipment

Property, plant and equipment, with the exception of works of art, are presented at cost and depreciated or amortized over their estimated useful lives using the straight-line method at the following annual rates:

Buildings	2% to 14.29%
Improvements to parking lots	2.5% to 14.29%
Improvements to rented parking lots	2.86% and 6.67%
Interior design	2.5% to 14.29%
Landscaping	2.67% to 14.29%
Leasehold improvements	9.68 % to 20%
Office furniture	10% and 20%
Automotive equipment	30%
Equipment	10% to 33.3%

Unused equipment is not depreciated.

The Corporation assesses the carrying value of its property, plant and equipment on an ongoing basis. In order to determine if there is an impairment, management assesses the estimated undiscounted cash flows that will be generated by this property, plant and equipment. Any permanent impairment in value is charged to earnings in the period during which the impairment occurred.

Intangible Assets

Intangible assets are comprised of software and computer development. They are presented at cost and amortized over their estimated useful lives using the straight-line method at rates varying from 10% to 33.3%. They are tested for impairment if changes in circumstances indicate that their carrying value would not be recoverable. Any excess of the carrying value over the fair value is charged to earnings for the period during which the impairment was identified.

Computer projects under development will be amortized upon completion of the development phase and once the projects have been implemented.

Deferred charges

Deferred charges consist of the preliminary costs of setting up the gaming halls; they will be amortized when operations commence.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Foreign currency translation**

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, and revenue and expense items are translated at the exchange rate prevailing at the date of the transaction. All exchange gains and losses are included in earnings.

Cash and cash equivalents

The Corporation's policy consists of presenting the following as cash and cash equivalents: cash on hand at casinos, bank balances and short-term investments that are readily convertible into known amounts of cash and present an insignificant risk of change in value.

3. COST OF SALES

	2007	2006
Lotteries		
Prizes awarded	964 941	966 350
Commissions to retailers	124 004	126 919
Printing of tickets	32 507	31 640
	<u>1 121 452</u>	<u>1 124 909</u>
Casinos, restaurants, lodging		
Promotional discounts	21 821	23 154
Restaurants	27 248	26 992
	<u>49 069</u>	<u>50 146</u>
Video lotteries		
Commissions to retailers	241 542	285 738
Printing of coupons	1 121	1 312
	<u>242 663</u>	<u>287 050</u>
Bingo		
Prizes awarded	18 010	18 294
Commissions to operators	2 387	2 297
Printing of cards	1 107	825
	<u>21 504</u>	<u>21 416</u>
	<u><u>1 434 688</u></u>	<u><u>1 483 521</u></u>

4. INTEREST – NET

	2007	2006
Interest charges on bank loans	22 950	12 034
Interest revenue on term deposits	(870)	(561)
Interest revenue on long-term investment, Moliflor Loisirs Développement	(7 104)	
	<u>14 976</u>	<u>11 473</u>

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

5. SPECIAL PAYMENTS

	2007	2006
Compensation to the Government of Canada	14 946	14 819
Net contribution to Manoir Richelieu, Limited Partnership	7 524	7 951
Special commissions to NPOs	1 040	1 029
Compensation to participating NPOs	7 785	7 861
Compensation to non-participating NPOs	713	799
	<u>32 008</u>	<u>32 459</u>

Compensation to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of \$24M (equivalent value in 1979), i.e., \$63.0M for the year ended March 31, 2007 (\$61.9M in 2006).

The Government of Québec's share is payable by the Corporation in accordance with the agreement reached between the provinces and the regional lottery corporations.

Net contribution to Manoir Richelieu, Limited Partnership

Pursuant to a guarantee agreement, and according to the distribution terms and conditions specified in the partnership agreement, the net contribution amount represents the minimum portion of cash generated by the operations of the Casino de Charlevoix payable to the partners, while taking into account the Corporation's share of the earnings generated by Manoir Richelieu.

Special commissions to non-profit organizations (NPOs)

Further to the shareholder's decision, a commission equal to the discount provided to retailers is paid to non-profit organizations that sell lottery tickets through the Lotomatique subscription system.

Compensation to non-profit organizations (NPOs)*Participating NPOs*

La Société des bingos du Québec Inc. awards the following to charitable or religious organizations that hold bingo licences : an amount equal to 36.4% of bingo ticket sales less the value of prizes awarded to game winners or 50% of net earnings generated, without taking into account compensation to non-participating NPOs, whichever is higher.

Non-Participating NPOs

La Société des bingos du Québec Inc. awards an amount equal to 5.45% of ticket sales generated by Le Grand Tour less the value of prizes paid to game winners to charitable or religious organizations that hold a bingo licences but do not participate in the Corporation's bingo games.

6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME AND FONDS D'AIDE À L'ACTION HUMANITAIRE INTERNATIONALE

Under its act of incorporation, the Corporation makes annual contributions to the Fonds d'aide à l'action communautaire autonome and to the Fonds d'aide à l'action humanitaire internationale that are equal to 5% and 1%, respectively, of the net earnings of the previous year through the operations of its State-run casinos and management of its businesses.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

7. CONTRIBUTIONS TO THE GOVERNMENT OF QUÉBEC

	2007	2006
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5 500	5 500
Ministère de la Santé et des Services sociaux	52 000	52 000
Ministère de la Sécurité publique	3 508	3 530
	<u>61 008</u>	<u>61 030</u>

8. ACCOUNTS RECEIVABLE

	2007	2006
Wholesalers	33 780	37 271
Retailers	26 317	19 469
Miscellaneous	21 536	15 730
	<u>81 633</u>	<u>72 470</u>

9. INVENTORIES

	2007	2006
Lotteries		
Modules – game terminals	1 328	2 707
Video lotteries		
Modules – video lottery terminals	3 761	3 864
Restaurants		
Food and beverages	5 640	6 180
	<u>10 729</u>	<u>12 751</u>

10. INVESTMENTS

	2007	2006
Moliflor Loisirs Développement and its wholly owned subsidiaries		
Shares –35% interest	5 820	4 803
Loans, 8%, principal and interest, cashable on May 31, 2016	101 246	82 169
	107 066	86 972
Manoir Richelieu, Limited Partnership and 9064-1812 Québec Inc., General Partner, interest equal to 50% of the operations of Manoir Richelieu and Casino de Charlevoix	38 261	41 896
	<u>145 327</u>	<u>128 868</u>

On April 6, 2006, the Corporation acquired a loan from a subsidiary of Moliflor Loisirs Développement for an amount of \$3.9M.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	2007		2006
	Cost	Accumulated Depreciation and Amortization	Net
Land	41 238		30 259
Buildings	340 807	99 976	202 702
Improvements to parking lots	128 953	66 809	67 962
Improvements to rented parking lots	5 271	3 048	2 499
Interior design	185 679	102 324	87 867
Landscaping	32 056	22 132	9 368
Leasehold improvements	37 321	28 511	10 008
Office furniture	30 283	21 618	9 568
Automotive equipment	1 044	870	285
Equipment	562 053	371 903	203 888
Works of art	5 366		4 947
Unused property, plant and equipment	16 479		14 659
	<u>1 386 550</u>	<u>717 191</u>	<u>644 012</u>

Unused property, plant and equipment consists of unused equipment in the amount of \$6.6M (\$13.4M in 2006), buildings undergoing renovations in the amount of \$1.9M (\$1.3M in 2006) as well as costs to implement gaming halls currently underway in the amount of \$8.0M.

Property, plant and equipment retired at a cost of \$13.2M (\$5.5M in 2006), amortized in full as at March 31, 2007, are included in equipment.

12. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated Amortization	Net
Software and computer development	100 288	40 553	50 424
Computer projects under development	10 836		19 434
	<u>111 124</u>	<u>40 553</u>	<u>69 858</u>

13. BANK LOANS

Bank loans on demand are authorized by the Government of Québec up to a maximum amount of \$700.0M and bear interest at the market rate, which is 4.32% to 4.39% (3.74% to 4.22% in 2006).

14. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2007	2006
Trade accounts payable and accrued charges	142 515	138 036
Dividends	66 000	6 000
Manoir Richelieu, Limited Partnership	15 756	11 866
Québec Sales Tax	5 960	5 893
Goods and Services Tax	4 430	5 051
	<u>234 661</u>	<u>166 846</u>

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

15. PROVISIONS RELATED TO PRIZES

	2007	2006
Provision for unclaimed prizes	14 305	11 069
Provision for differences in prize structures	513	690
	<u>14 818</u>	<u>11 759</u>

The provision for unclaimed prizes is comprised of unclaimed prizes of all the Corporation's products, excluding Canada-wide games. This amount is used as payments for bonuses and prizes to retailers.

The provision for differences in prize structures related to products in the bingo segment is comprised of differences between the theoretical amounts of the prizes to be awarded under the prize structure and the actual amounts payable. The amounts of this provision are mainly used to offset occasional shortfalls arising from prize structures that exceed the forecast amounts. Furthermore, this provision may, following the approval of the Board of Directors, be used to award bonus prizes or for discharging any possible claims associated with the games, or it may be included in earnings.

16. COMMITMENTS**Leases**

The Corporation is committed under long-term leases expiring on various dates through May 2035 for the rental of administrative offices. In certain cases, these leases carry an implied two-to five-year renewal option.

In addition, in November 2006, as part of the implementation of a gaming hall in Québec City, the Government of Québec has authorized the Corporation to enter into a lease expiring in January 2022 for the rental of land in Québec City with five-year renewal periods up to a maximum term of 60 years.

Future minimum payments, in thousands of dollars, are as follows:

2008	20 416
2009	18 288
2010	17 282
2011	15 605
2012	9 275
2013 and thereafter	<u>2 090</u>
	<u>82 956</u>

Network of direct lotteries

In June 2006, the Government of Québec authorized the Corporation, through one of its subsidiaries, to replace its lottery game terminals for a maximum amount of \$95.5M, of which \$2.8M was recorded as at March 31, 2007. On this date, contractual commitments related to this project amounted to \$41.6M.

Gaming halls*Trois-Rivières and Québec City*

These two gaming halls are expected to open in fall 2007.

The total budget for implementing the Trois-Rivières gaming hall, which will house 200 video lottery terminals, is \$32.2M. As at March 31, 2007, \$3.7M was recorded and commitments on that date totalled \$2.4M.

The total budget for implementing the Québec City gaming hall, which will house 335 video lottery terminals, is \$33.9M. As at March 31, 2007, \$3.0M was recorded and commitments on that date totalled \$4.7M.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

16. COMMITMENTS (cont'd)**Gaming halls (cont'd)***Mont-Tremblant*

As part of the implementation of a gaming hall housing 300 video lottery terminals, which is scheduled to open in summer 2008 as the Mont-Tremblant Ski Resort, the Corporation, through one of its subsidiaries, made a commitment in September 2005 to acquire land for an amount of \$3.6M, of which \$364 000 was recorded as at March 31, 2007 (\$364 000 in 2006).

In addition, in November 2006, the Government of Québec authorized the Corporation, through one of its other subsidiaries, to enter into a services agreement with the Mont-Tremblant Ski Resort, Limited Partnership for an indefinite period, providing for the payment of its portion of miscellaneous services such as transportation, marketing and shared costs.

At the time of opening, minimum annual payments under the services agreement will total \$1.7M. Some of these payments are subject to renegotiation based on the opening date.

The total budget for implementing the Mont-Tremblant gaming hall amounts to \$56.1M. As at March 31, 2007, \$1.3M was recorded and commitments on that date totalled \$5.5M.

Northern crown of Montréal

The implementation of a gaming hall on a site not yet determined, which will be located in the northern “crown” of Montréal will house, 1,300 video lottery terminals. The budget for implementing this centre totals \$99.0M. As at March 31, 2007, \$0.4M was recorded and commitments on that date totalled \$3.2M.

Agreement to pay guaranteed payments – gaming halls

The Government of Québec has authorized the Corporation, through one of its subsidiaries, to enter into an agreement for guaranteed payments with four limited partnerships.

This agreement provides for a payment for a 15-year period of 22% of the net revenues from 1,900 video lottery terminals located in three gaming halls related to the hippodromes of Trois-Rivières, Québec City and northern “crown” of Montréal and the Aylmer Hippodrome. A renewal option for an additional ten years provides for the payment of a percentage of the net revenues from these 1 900 video lottery terminals that will be equal to the amount payable during the same period to the operators of the video lottery terminals located in bars, brasseries and taverns.

The payment of these amounts is conditional on the limited partnerships respecting their commitments under this agreement for guaranteed payments and those under the asset-sales and commitment agreement of August 17, 2006 related to the race horse industry as well as those under the regulations applicable to video lotteries.

The Corporation is not in a position at this time to evaluate the total amount of this commitment.

Contributions to the Government of Québec*Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)*

Following the repeal of fairground casinos, the Government authorized Loto-Québec to make a commitment to the MAPAQ to pay the annual contribution of \$5.5M into a specified purpose account per calendar year until 2008. Upon expiry, the agreement will be renewable by mutual consent between the parties.

Ministère de la Santé et des Services sociaux

With the authorization of the Government of Québec, the Corporation is committed to make an annual contribution of \$22.0M to the Ministère de la Santé et des Services sociaux (MSSS) into a specified purpose account to finance prevention measures, treatment services and research programs and information campaigns to help compulsive gamblers.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

16. COMMITMENTS (cont'd)**Contributions to the Government of Québec (cont'd)***Ministère de la Santé et des Services sociaux (cont'd)*

Furthermore, the Corporation is also committed to the MSSS to make an annual contribution of \$30.0M into a specified purpose account to finance assistance and support services for the elderly who are no longer autonomous but live on their own or in residential homes.

The Corporation is not in a position to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Government of Québec, the Corporation is committed to the Ministère de la Sécurité publique to make an annual contribution of \$3.0M into a specified purpose account to finance activities and intensive control measures implemented by the Régie des alcools, des courses et des jeux in order to specifically ensure the management of control measures regarding access to video lottery terminals. The Corporation is not in a position to assess the total amount of this commitment.

Furthermore, the Corporation is also committed to the same Québec Government department to make an annual contribution of approximately \$0.9M into a specified purpose account indexed annually according to the consumer price index and to do so for a five-year period ending March 31, 2012 for purposes of financing additional resources that would allow for a reduction of the certification periods of game terminals operated by the Corporation.

17. FINANCIAL INSTRUMENTS**Fair value**

The following methods and assumptions have been used to estimate the fair value of the financial instruments of the balance sheet:

The fair value of short-term financial instruments is equal to their carrying value due to their short-term maturities.

The fair value of the loan to Moliflor Loisirs Développement, the carrying value of which is \$101.2M cannot be established because the conditions of this loan result from transactions concluded between related parties, and as a result, the terms and conditions could differ from those that would be negotiated between unrelated companies.

Credit risk

Management estimates that the Corporation is not exposed to significant credit risk. Cash on hand – casinos includes the casinos' cash inventory. Accounts receivable are primarily from operations concluded with a significant number of wholesalers and retailers.

18. CONSOLIDATED CASH FLOWS

	2007	2006
Cash and cash equivalents, end of year		
Cash on hand – casinos	52 683	48 764
Cash (bank overdraft)	19 783	(15 563)
	<u>72 466</u>	<u>33 201</u>

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

18. CONSOLIDATED CASH FLOWS (cont'd)

	2007	2006
Change in non-cash operating working capital items		
Accounts receivable	(9 163)	(27 867)
Inventories	2 022	848
Prepaid expenses	1 632	(6 265)
Prizes to winners	(11 987)	16 934
Accounts payable and accrued charges	2 747	4 300
Provisions related to prizes	3 059	916
Deferred revenue	(2 372)	108
	<u>(14 062)</u>	<u>(11 026)</u>
Acquisitions of property, plant and equipment	(112 464)	(42 286)
Less: prepaid expenses transferred to property, plant and equipment	<u>(2 347)</u>	<u>(569)</u>
	<u>(114 811)</u>	<u>(42 855)</u>
Acquisitions of intangible assets	(11 714)	(9 525)
Less: prepaid expenses transferred to intangible assets	<u>159</u>	<u>(474)</u>
	<u>(11 555)</u>	<u>(9 999)</u>
Additional information		
Interest paid	<u>22 143</u>	<u>12 535</u>

The "accounts payable and accrued charges" item includes acquisitions of property, plant and equipment and intangible assets amounting to \$13.4M and \$4.2M, respectively (\$13.7M and \$2.7M in 2006).

19. PENSION PLAN

Employees of the parent company, La Société des loteries vidéo du Québec Inc., La Société des bingos du Québec Inc. and Ingenio, filiale de Loto-Québec Inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) or the Régime de retraite du personnel d'encadrement (RRPE). These are defined benefit plans and include guarantees upon retirement or death. Contributions charged to consolidated earnings for the year for these multiemployer plans totalled \$3.6M (\$3.2M in 2006). The employer's obligations toward these government plans are limited to its contributions as an employer.

Employees of La Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Technologies Nter, société en commandite participate in a group RRSP. These defined contribution plans are voluntary and provide employees with immediate vesting of the employer's contribution, which is equal to the employee's contribution within the limits prescribed under the plans. Contributions charged to consolidated earnings for the year for these plans totalled \$9.9M (\$9.6M in 2006).

20. RELATED PARTY TRANSACTIONS

In addition to the related party, transactions already disclosed and recorded at the exchange amount, the Corporation is related to all Government of Québec departments and special funds, as well as agencies and enterprises directly or indirectly controlled by the Government of Québec, or subject to either joint control or significant joint influence on the part of the Government of Québec. With the exception of the aforementioned transactions, the Corporation has not concluded any business transactions with these related parties other than within the normal course of business and usual business terms and conditions. These transactions have not been disclosed separately in the financial statements.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

21. SUBSEQUENT EVENT

On April 1, 2007, a merger took place between two Loto-Québec subsidiaries – Resto-Casino Inc. merged with La Société des casinos du Québec Inc. (SCQ). As an agent of Loto-Québec, SCQ collects the proceeds and incurs the expenses related to the restaurant and lodging operations. The transfer of all assets and liabilities was carried out using the carrying value, and the shares of Resto-Casino Inc. were cancelled without a repayment on capital. The amount of share capital issued and paid of Resto-Casino Inc. was added to that of the SCQ.

22. COMPARATIVE FIGURES

Certain prior year figures of 2006 have been reclassified to conform to the current year's presentation in 2007.

23. SEGMENTED INFORMATION

2007								
Business segments	Lotteries	Casinos Restaurants/ Lodging	Video Lotteries	Bingo	Multi- media	International	Elimina- tion of inter- company transactions	Consoli- dated figures
Revenues								
Games	1 842 432	758 224	1 097 917	39 370	1 062		(112)	3 738 893
Restaurants		87 786					(45 800)	41 986
Lodging		16 214						16 214
Provision of services						1 739		1 739
	<u>1 842 432</u>	<u>862 224</u>	<u>1 097 917</u>	<u>39 370</u>	<u>1 062</u>	<u>1 739</u>	<u>(45 912)</u>	<u>3 798 832</u>
Cost of sales								
Games	1 121 552	21 821	242 663	21 504			(100)	1 407 440
Restaurants		27 248						27 248
	<u>1 121 552</u>	<u>49 069</u>	<u>242 663</u>	<u>21 504</u>			<u>(100)</u>	<u>1 434 688</u>
Gross margin	<u>720 880</u>	<u>813 155</u>	<u>855 254</u>	<u>17 866</u>	<u>1 062</u>	<u>1 739</u>	<u>(45 812)</u>	<u>2 364 144</u>
Operating expenses								
Operating costs	153 534	479 923	65 635	5 498	6 216	(7 068)	(45 812)	657 926
Dep. & Amort. of property, plant and equipment	11 401	44 325	24 799	171	46			80 742
Amortization of intangi- ble assets	6 812	3 060	1 316	366	3			11 557
Interest – net	<u>7 510</u>	<u>5 295</u>	<u>9 320</u>	<u>(16)</u>	<u>(14)</u>	<u>(7 119)</u>		<u>14 976</u>
	<u>179 257</u>	<u>532 603</u>	<u>101 070</u>	<u>6 019</u>	<u>6 251</u>	<u>(14 187)</u>	<u>(45 812)</u>	<u>765 201</u>
Earnings (loss) before the undernoted :								
(Amounts carried forward)	<u>541 623</u>	<u>280 552</u>	<u>754 184</u>	<u>11 847</u>	<u>(5 189)</u>	<u>15 926</u>		<u>1 598 943</u>

LOTO-QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

23. SEGMENTED INFORMATION (cont'd)

2007								
Business segments	Lotteries	Casinos Restau- rants/ Lodging	Video Lotteries	Bingo	Multi- media	International	Elimina- tion of inter- company transactions	Consoli- dated figures
Earnings (loss) before the undernoted : (Amounts brought forward)	541 623	280 552	754 184	11 847	(5 189)	15 926		1 598 943
Special payments	15 986	7 524		8 498				32 008
Goods and Services Tax	16 267	8 290	19 112	404				44 073
Québec Sales Tax	20 577	10 497	24 229	511				55 814
Share in a company subject to signifi- cant influence Moliflor Loisirs Développement						(1 017)		(1 017)
	52 830	26 311	43 341	9 413		(1 017)		130 878
Net earnings (loss)	<u>488 793</u>	<u>254 241</u>	<u>710 843</u>	<u>2 434</u>	<u>(5 189)</u>	<u>16 943</u>		<u>1 468 065</u>

Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.

2006								
Business segments	Lotteries	Casinos Restau- rants/ Lodging	Video Lotteries	Bingo	Multi- media	International	Elimina- tion of inter- company transactions	Consoli- dated figures
Revenues								
Games	1 860 630	758 464	1 298 805	39 857	1 354		(210)	3 958 900
Restaurants		86 164					(43 750)	42 414
Lodging		14 716						14 716
Amounts carried forward	1 860 630	859 344	1 298 805	39 857	1 354		(43 960)	4 016 030

LOTO-QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

23. SEGMENTED INFORMATION (cont'd)

2006								
Business segments	Loteries	Casinos Restau- rants/ Lodging	Video Lotteries	Bingo	Multi- media	International	Elimina- tion of inter- company transactions	Consoli- dated figures
Amounts brought forward	1 860 630	859 344	1 298 805	39 857	1 354		(43 960)	4 016 030
Cost of sales								
Games	1 125 059	23 154	287 050	21 416			(150)	1 456 529
Restaurants		26 992						26 992
	1 125 059	50 146	287 050	21 416			(150)	1 483 521
Gross margin	735 571	809 198	1 011 755	18 441	1 354		(43 810)	2 532 509
Operating expenses								
Operating costs	154 143	482 528	63 044	5 622	6 092	865	(43 810)	668 484
Dep. & Amort. of property, plant and equipment	10 609	44 670	29 251	173	51			84 754
Amortization of intangible assets	5 244	2 714	1 596	363	3			9 920
Interest – net	3 711	2 453	5 337	(9)	(17)	(2)		11 473
	173 707	532 365	99 228	6 149	6 129	863	(43 810)	774 631
Earnings (loss) before the undernoted :	561 864	276 833	912 527	12 292	(4 775)	(863)		1 757 878
Special payments	15 848	7 951		8 660				32 459
Goods and Services Tax	18 034	9 371	24 126	433				51 964
Québec Sales Tax	20 613	10 744	27 658	497				59 512
	54 495	28 066	51 784	9 590				143 935
Net earnings (loss)	507 369	248 767	860 743	2 702	(4 775)	(863)		1 613 943

Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.

LOTO-QUÉBEC

MANAGEMENT'S REPORT

The consolidated financial statements of Loto-Québec have been prepared by management, who is responsible for their preparation and presentation, and includes important estimates and assumptions. This responsibility also includes the election of the proper accounting policies and those which respect Canadian generally accepted accounting principles. Financial information provided else-where in the Annual Report on Activities is consistent with that shown in the financial statements.

To meet its obligations, management maintains internal control systems that are designed to provide reasonable assurance that the assets are safeguarded and the transactions are properly recorded and approved, and that they enable management to produce reliable consolidated financial statements. Corporate management of the internal audit performs periodic audits in order to ensure the adequacy and maintenance of the internal controls applied consistently by Loto-Québec.

Loto-Québec recognizes that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors, assisted by its Audit Committee, consisting solely of outside directors, monitors management's responsibilities regarding the financial information and approves the consolidated financial statements. The Audit Committee meets with management and the Auditor General of Québec, reviews the Corporation's consolidated financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the consolidated financial statements of Loto-Québec, in compliance with Canadian generally accepted auditing standards, and his auditor's report states the nature and scope of this audit and his statement of opinion. The Auditor General has free access to the Audit Committee to discuss audit-related issues.

Alain Cousineau
Chairman, President and
Chief Executive Officer

Gille Dufour
Senior Vice-President,
Financial Affairs

Montréal, May 24, 2007

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2007 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec,
Renaud Lachance, CA

Québec, May 24, 2007

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
for the year ended March 31, 2007

	General Fund	Commercial Activities Fund
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$8 041 900	
Specific projects	160 000	
Government of Canada subsidies		
– Specific projects (Note 4)	368 908	
Art work donations	1 159 870	
Other donations (Note 6)	1 107 278	
Sponsorship	14 822	
Investment income (Note 7)	112 022	
Sales		\$21 849
Space rental		142 755
Travelling exhibitions	47 109	
Royalties – food services		52 899
Admission fees	424 348	
Other revenues	295 852	1 330
	<u>11 732 109</u>	<u>218 833</u>
EXPENSES		
Salaries and fringe benefits	4 310 921	81 627
Professional, administrative and other services	2 203 419	33 598
Transportation and communications	1 460 856	3 010
Materials and supplies	521 160	158
Rentals	916 244	22 560
Maintenance and repairs	232 673	4 080
Interest charges and cost of borrowing	18 572	
Acquisition of art works (Note 8)		
Donations – art work	1 159 870	
Purchases – art work	978 963	
Amortization – capital assets		
	<u>11 802 678</u>	<u>145 033</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(70 569)	73 800
FUND BALANCES, BEGINNING OF YEAR	277 621	275 000
Interfund contributions (Note 10)	73 800	(73 800)
FUND BALANCES, END OF YEAR	<u>\$280 852</u>	<u>\$275 000</u>

The notes are an integral part of the financial statements.

Capital Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Worksof arts	Total 2007	Total 2006
\$382 279	\$25 173		\$8 449 352 160 000	\$8 055 370 385 486
			368 908	420 000
			1 159 870	1 189 565
			1 107 278	1 064 141
			14 822	22 784
			112 022	100 569
			21 849	22 101
			142 755	192 357
			47 109	29 348
			52 899	62 689
			424 348	307 693
			297 182	273 781
<u>382 279</u>	<u>25 173</u>		<u>12 358 394</u>	<u>12 125 884</u>
			4 392 548	4 458 696
			2 237 017	1 823 712
			1 463 866	1 634 201
			521 318	637 235
			938 804	988 689
267 759	25 173		236 753	220 702
			311 504	363 385
			1 159 870	1 189 565
			978 963	652 852
<u>114 520</u>			<u>114 520</u>	<u>152 396</u>
<u>382 279</u>	<u>25 173</u>		<u>12 355 163</u>	<u>12 121 433</u>
			3 231	4 451
(446 623)		\$1 412 846	1 518 844	1 514 393
<u>\$(446 623)</u>		<u>\$1 412 846</u>	<u>\$1 522 075</u>	<u>\$1 518 844</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

BALANCE SHEET
as at March 31, 2007

	General Fund	Commercial Activities Fund
ASSETS		
Current assets		
Cash on hand	\$1 839 937	
Short-term investments (Note 11)	296 490	
Accounts receivable	183 416	\$33 494
Accrued interest	14 197	
Interfund receivables, interest-free and no encashment terms	147 435	245 752
Gouvernement du Québec subsidies receivable	47 500	
Other subsidies receivable	308 387	
Prepaid expenses	419 961	
	<u>3 257 323</u>	<u>279 246</u>
Gouvernement du Québec subsidies receivable		
Long-term receivable, interest-free, maturing in October 2008		15 554
Investments (Note 11)	823 651	
Capital assets (Note 12)		
	<u>\$4 080 974</u>	<u>\$294 800</u>
LIABILITIES		
Current liabilities		
Bank advances and credit line (Notes 13 and 14)		
Accounts payable and accrued liabilities	\$1 332 520	
Provision for vacation time	400 047	
Interfund receivables, interest-free and no repayment terms		
Interest payable		
Deferred revenue	66 800	\$19 800
Deferred donations (Note 5)		
Deferred investment income (Note 11)	853 608	
Deferred Gouvernement du Québec subsidies		
– Specific projects	82 500	
Deferred Government of Canada subsidies		
– Specific projects	270 000	
Current portion of long-term debt (Note 15)		
	<u>3 005 475</u>	<u>19 800</u>
Future fringe benefits (Note 17)	794 647	
Long-term debt (Note 15)		
Deferred Gouvernement du Québec subsidies (Note 16)		
	<u>3 800 122</u>	<u>19 800</u>
FUND BALANCES		
External appropriations (Notes 2 and 9)	250 000	275 000
Unappropriated funds	30 852	
	<u>280 852</u>	<u>275 000</u>
	<u>\$4 080 974</u>	<u>\$294 800</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Marc DeSerres
Nathalie Pratte

Capital Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2007	Total 2006
		\$40 059	\$1 879 996	\$2 018 652
		122 765	419 255	129 290
	\$5 000		221 910	410 795
			14 197	14 237
	465 034			
\$488 951	75 349		611 800	659 529
			308 387	10 000
			419 961	21 039
488 951	545 383	162 824	3 875 506	3 263 542
4 922 113	335 925		5 258 038	5 605 544
			15 554	42 218
		2 022 558	2 846 209	2 718 346
318 981			318 981	385 668
\$5 730 045	\$881 308	\$2 185 382	\$12 314 288	\$12 015 318
\$310 000			\$310 000	\$398 500
			1 332 520	1 119 019
			400 047	399 828
85 685		\$772 536		
81 340	\$8 165		89 505	96 912
			86 600	37 202
	470 033		470 033	272 033
			853 608	749 936
			82 500	195 000
			270 000	
404 187	67 185		471 372	460 111
881 212	545 383	772 536	4 366 185	3 728 541
			794 647	797 526
4 922 113	335 925		5 258 038	5 605 544
373 343			373 343	364 863
6 176 668	881 308	772 536	10 792 213	10 496 474
(446 623)		1 412 846	1 491 223	1 491 223
			30 852	27 621
(446 623)		1 412 846	1 522 075	1 518 844
\$5 730 045	\$881 308	\$2 185 382	\$12 314 288	\$12 015 318

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	General Fund	Commercial Activities Fund
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$(70 569)	\$73 800
Items not affecting liquid assets		
Amortization of capital assets		
Net gains on investments		
	(70 569)	73 800
Changes in assets and liabilities related to operations		
Accounts receivable	40 323	20 063
Accrued interest	40	
Interfund receivables	283 035	(62 527)
Gouvernement du Québec subsidies receivable	52 500	
Other subsidies receivable	(298 387)	
Inventory		
Prepaid expenses	(398 922)	
Long-term receivable		26 664
Accounts payable and accrued liabilities	213 501	
Provision for vacation time	219	
Interest payable		
Deferred revenue	33 598	15 800
Deferred donations		
Deferred investment income	103 672	
Deferred Gouvernement du Québec subsidies – Specific projects	(112 500)	
Deferred Government of Canada subsidies – Specific projects	270 000	
Future fringe benefits	(2 879)	
Deferred Gouvernement du Québec subsidies		
	184 200	
Cash flows related to operating activities	113 631	73 800
FINANCING ACTIVITIES		
Long-term debt repayment		
Long term debt		
Bank advances		
Cash flows related to financing activities		
INVESTMENT ACTIVITIES		
Acquisition of capital assets		
Acquisition of investments	(341 434)	
Gains from the sale of investments		
Cash flows related to investment activities	(341 434)	
CHANGE IN CASH AND CASH EQUIVALENTS	(227 803)	73 800
Interfund contributions (Note 10)	73 800	(73 800)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1 993 940	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$1 839 937	
Cash and cash equivalents include cash on hand.		

The notes are an integral part of the financial statements.

Capital Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2007	Total 2006
			\$3 231	\$4 451
\$114 520			114 520	152 396
		\$(48 409)	(48 409)	(28 140)
114 520		(48 409)	69 342	128 707
	\$128 499		188 885	41 421
			40	1 815
14 251	(326 500)	91 741	395 235	153 739
274 189	68 546		(298 387)	18 892
				101 276
			(398 922)	(8 654)
			26 664	(42 218)
			213 501	460 453
			219	5 063
(6 047)	(1 360)		(7 407)	(159 160)
			49 398	(24 716)
	198 000		198 000	149 500
			103 672	85 470
			(112 500)	(214 304)
			270 000	
			(2 879)	50 235
8 480			8 480	202 304
290 873	67 185	91 741	633 999	821 116
405 393	67 185	43 332	703 341	949 823
(392 927)	(67 185)		(460 112)	(5 066 333)
123 867			123 867	5 026 339
(88 500)			(88 500)	(180 200)
(357 560)	(67 185)		(424 745)	(220 194)
(47 833)			(47 833)	(123 910)
		(1 108 529)	(1 449 963)	(1 002 579)
		1 080 544	1 080 544	897 604
(47 833)		(27 985)	(417 252)	(228 885)
		15 347	(138 656)	500 744
		24 712	2 018 652	1 517 908
		\$40 059	\$1 879 996	\$2 018 652

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2007

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 exhibition catalogue sales, restaurant and gift shop operations, by-products production and sales and space rental. Under a regulation approved by the Government in September 1994, the Fund balance must not exceed \$275 000 and must be used to repay borrowings or finance the Musée's activities.

The Capital Assets Fund shows all assets, liabilities, revenues and expenditures related to capital assets. All amounts recorded in the Capital Assets Fund are reserved for the acquisition of capital 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 capital assets.

The Endowment Fund for the Acquisition of Works of Art presents resources acquired through endowments. Under a regulation approved by the Government, the capital must be maintained and only investment income generated by this Fund can be used to acquire works of art for the Musée's collection.

3. ACCOUNTING POLICIES

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

Subsidy recording

Subsidies are recorded using the deferral method. Appropriated subsidies are posted to revenue the year the related expenditure is incurred. Non-appropriated subsidies are posted to revenue when they are received or receivable if the amount can be evaluated with reasonable assurance and recovery is reasonably certain.

Subsidies receivable for capital assets and their maintenance are posted in the year the Musée obtains the financing or carries out the work entitling it to these subsidies.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. ACCOUNTING POLICIES (cont'd)

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 as proceeds when it is used to acquire 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 revenue in the fiscal year in which the related charges are incurred.

Works of art

Acquisitions of works of art are charged to the General Fund.

The 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 Government's Canadian Cultural Property Export Review Board. Works of art acquired through donations are recorded in the statement of revenue and expenses of the General Fund when all attendant conditions have been fulfilled.

Investments

Short-term investments are recorded at the lower of cost method 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.

Capital assets

Capital assets are recorded at acquisition cost and amortized on a straight-line basis over their estimated service life:

Storerooms for works of art	10 years
Computer system	3 years
Musée furnishings	10 years
Musée equipment	5 years
Audiovisual equipment	3 years
Gift shop equipment	5 years
Restaurant equipment	5 years
Sculpture garden	10 years

Contributions in the form of services

The Musée receives contributions free of charge in the form of publicity services. These contributions and the corresponding expenses are assessed at their fair value when it can be reasonably estimated.

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.

Given the difficulty determining the fair value of the services provided free of charge by volunteers, they are not considered the in Musée's revenues and expenses.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. ACCOUNTING POLICIES (cont'd)****Pension plans**

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

4. FEDERAL SUBSIDIES FOR SPECIFIC PROJECTS

	2007	2006
Canada Council	\$330 000	\$330 000
Heritage Canada	38 908	90 000
	<u>\$368 908</u>	<u>\$420 000</u>

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 revenues in the statement of results when used for the campaign's educational activities. At March 31, 2007, the Fondation had pledges totalling \$45 500 (2006: \$243 500). These pledges will be recorded when cashed in future years.

Deferred *Une Affaire d'Art* fundraising campaign donations:

	2007	2006
Balance, beginning of year	\$272 033	\$122 533
Donations cashed during the year	198 000	149 500
Amounts recorded as income from donations during the year		
	<u>\$470 033</u>	<u>\$272 033</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

5. FONDATION DU MUSÉE (cont'd)

During the year, the Musée d'art contemporain de Montréal carried out transactions in the normal course of its operations with the Fondation. In the fiscal year ending March 31, 2006, the Musée d'art contemporain de Montréal sold Musée giftshop stocks to the Fondation for \$80 000. This selling price corresponds to the stocks' book value and is payable in 36 equal monthly instalment. Should the Fondation be dissolved or its activities cease, the assets remaining after payment of its debts will go to the Musée. The Fondation's net assets totalled \$234 053 at March 31, 2007 (2006: \$305 240). At the end of the fiscal year, the net balance the Fondation owed to the Musée was \$49 332 (2006: \$235 872).

6. OTHER DONATIONS

	2007	2006
Cash donations	\$98 400	\$59 390
Donations in the form of services	1 008 878	1 004 751
	<u>\$1 107 278</u>	<u>\$1 064 141</u>

7. INVESTMENT INCOME

	2007	2006
Income from unappropriated resources	\$112 022	\$100 569
Income from resources held in the Endowment		
Fund for the Acquisition of Works of Art	93 676	78 355
Income from resources held as endowments in		
Operating Fund	9 996	7 115
Less: Deferred amounts slated for		
the acquisition of works of art	(93 676)	(78 355)
Less: Deferred amounts slated for presentation		
of an annual symposium (Note 9)	(9 996)	(7 115)
	<u>\$112 022</u>	<u>\$100 569</u>

8. COLLECTIONS

The Musée d'art contemporain de Montréal holds 7 176 works of art, including 1 326 in the Lavalin Collection, which the Musée acquired in 1992 through a special \$5 400 000 subsidy from the Gouvernement du Québec. The Musée's overall collection comprises paintings, sculptures, prints, photographs, installation works, films and videos, most of which were produced after 1939, the cut-off date for the period covered by the Musée's activities. The Musée develops its collection in keeping with the mandate entrusted to it under its governing statute, i.e. to ensure a place for contemporary Québec art on the Canadian and international art scenes.

Among other things, the Musée maintains archival collections, comprising primarily the Fonds Borduas, the Fonds Boulérice, the Fonds Mousseau, the Fonds Yves Trudeau, Fonds Marciej Babinski and the Fonds Le Gobelet.

In fiscal 2006-2007, the Musée acquired 66 works of art and archives (2006: 66), 18 of which were purchased (2006: 22) for a total of \$978 963 (2006: \$652 852), 48 were from donations (2006: 44) for a total of \$1 159 870 (2006: \$1 189 565).

9. GENERAL FUND – EXTERNAL ASSIGNMENT

The General Fund balance includes \$250 000, which is slated by external assignment for permanent keeping. The investment income related to this amount is used for an annual symposium under external assignment.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. INTERFUND CONTRIBUTIONS**

	General Fund		Commercial Activities Fund	
	2007	2006	2007	2006
Positive fund balance	\$73 800	\$90 735	\$(73 800)	\$(90 735)
	<u>\$73 800</u>	<u>\$90 735</u>	<u>\$(73 800)</u>	<u>\$(90 735)</u>

Transfer to the General Fund of the portion of the Commercial Activities Fund balance in excess of \$275 000 (Note 2).

11. INVESTMENTS

	2007						2006	
	General Fund		Endowment Fund for the Acquisition of Works of Art		Total		Total	
	Cost	Fair value	Cost	Fair value	Cost	Fair value	Cost	Fair value
Short-term investments								
Money market, bonds and treasury bills, maturing between May, 2007 and March 2008, interest from 3.71% to 4.56%	<u>\$296 490</u>	<u>\$300 119</u>	<u>\$122 765</u>	<u>\$123 187</u>	<u>\$419 255</u>	<u>\$423 306</u>	<u>\$129 290</u>	<u>\$129 558</u>
Investments								
Bonds maturing between 1 and 5 years, interest from 3.48% to 7%	\$472 437	\$609 501	\$250 238	\$257 698	\$722 675	\$867 199	\$887 302	\$905 492
6 and 10 years, interest from 4.18% to 7.1%	351 214	234 423	324 329	324 015	675 543	558 438	611 446	624 910
11 years and more, interest of 4.45% to 8.2%	<u>823 651</u>	<u>843 924</u>	<u>355 507</u>	<u>369 636</u>	<u>355 507</u>	<u>369 636</u>	<u>200 268</u>	<u>215 869</u>
			<u>930 074</u>	<u>951 349</u>	<u>1 753 725</u>	<u>1 795 273</u>	<u>1 699 016</u>	<u>1 746 271</u>
Marketable securities			<u>1 092 484</u>	<u>1 437 946</u>	<u>1 092 484</u>	<u>1 437 946</u>	<u>1 019 330</u>	<u>1 231 841</u>
	<u>\$823 651</u>	<u>\$843 924</u>	<u>\$2 022 558</u>	<u>\$2 389 295</u>	<u>\$2 846 209</u>	<u>\$3 233 219</u>	<u>\$2 718 346</u>	<u>\$2 978 112</u>

The net investment income accumulated at March 31, 2007 and available for acquisitions under the Fund's regulations, totalled \$832 957 (2006: \$739 281) and is posted to deferred investment income in the General Fund. Net cumulated investment income at March 31, 2007, to be used for an annual symposium under external assignment, totalled \$20 651 (2006: \$10 655) and was posted to investment income in the General Fund.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. CAPITAL ASSETS FUND – CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Storerooms for works of art	\$633 404	\$627 309	\$6 095
Computer system	438 745	430 759	7 986
Musée furnishings	3 765 158	3 509 074	256 084
Musée equipment	301 961	272 844	29 117
Audiovisual equipment	419 616	418 965	651
Gift shop equipment	37 200	37 200	
Restaurant equipment	135 767	119 979	15 788
Sculpture garden	483 281	480 021	3 260
	<u>\$6 215 132</u>	<u>\$5 896 151</u>	<u>\$318 981</u>
			<u>\$385 668</u>

13. CAPITAL ASSETS FUND – BANK ADVANCES

	2007	2006
Borrowings from a financial institution, authorized by order-in-council for a maximum amount of \$917 900 (2006: \$819 500) and bearing interest at the Institution's Canadian prime rate, i.e. 6.0% at March 31, 2007 (2006: 5.5%).	<u>\$310 000</u>	<u>\$398 500</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, 2006 and 2007, no amount was owing.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

15. LONG-TERM DEBT

	2007	
	Capital Assets Fund	
	Book value	Fair value
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.771%, guaranteed by the Gouvernement du Québec, repayable in eight annual instalments of \$311 252 beginning June 3, 2006 and a final instalment of \$2 178 763 on June 3, 2014	\$4 357 527	\$4 511 957
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.076%, guaranteed by the Gouvernement du Québec, repayable in 10 annual instalments of \$83 981 beginning June 1, 2003	100 777	107 369
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	410 407	438 590
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.90%, guaranteed by the Gouvernement du Québec, repayable in 15 annual instalments of \$23 837 beginning July 16, 2006	333 723	342 409
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.379%, guaranteed by the Gouvernement du Québec, repayable in 11 annual instalments of \$11 261 beginning May 10, 2007	123 866	123 404
	5 326 300	5 523 729
Minus: current portion	404 187	404 187
	<u>\$4 922 113</u>	<u>\$5 119 542</u>

2007				2006	
Fundraising Campaign Fund		Total		Total	
Book value	Fair value	Book value	Fair value	Book value	Fair value
		\$4 357 527	\$4 511 957	\$4 668 779	\$4 780 986
\$403 110	\$429 478	503 887	536 847	587 869	626 613
		410 407	438 590	451 447	485 724
		333 723	342 409	357 560	362 795
		123 866	123 404		
403 110	429 478	5 729 410	5 953 207	6 065 655	6 256 118
67 185	67 185	471 372	471 372	460 111	460 111
<u>\$335 925</u>	<u>\$362 293</u>	<u>\$5 258 038</u>	<u>\$5 481 835</u>	<u>\$5 605 544</u>	<u>\$5 796 007</u>

The principal on these loans is paid in annual instalments out of the Gouvernement du Québec subsidy received for this purpose.

Payments of principal on the long-term debt for the next five fiscal years are:

2008	\$471 372
2009	471 372
2010	471 372
2011	717 615
2012	430 331

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**16. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES**

The deferred subsidies shown in the Capital Assets Fund include the non-amortized portion of contributions received and receivable in the form of subsidies.

	2007	2006
Balance, beginning of year	\$364 863	\$162 559
Specific subsidy for long-term debt	123 000	354 700
Amortization of deferred subsidies	<u>(114 520)</u>	<u>(152 396)</u>
Balance, end of year	<u>\$373 343</u>	<u>\$364 863</u>

17. FUTURE FRINGE BENEFITS**Pension plans**

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

The Musée's contributions charged to the year-end statement total \$175 759 (2006: \$175 565). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$797 526	\$747 291
Annual expenses	133 890	125 830
Benefits paid during year	<u>(136 769)</u>	<u>(75 595)</u>
Balance, end of year	<u>\$794 647</u>	<u>\$797 526</u>

18. COMMITMENTS

Under various contracts, the Musée must make minimum payments for future commitments of \$1 523 570. Minimum amounts payable for these commitments for coming fiscal years are:

2008	\$659 348
2009	584 468
2010	279 754

19. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value with the exception of the inventory sales disclosed in Note 5 measured at book 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, with the exception of the sale of inventories disclosed in Note 5, 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 THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

20. PAY EQUITY

In keeping with the Pay Equity Act adopted on November 21, 1996, the Musée must assess its different job categories. When these financial statements were prepared, the Musée was unable to assess the amount it might have to pay, if applicable, given that this process was still under way. Consequently, no amount was posted in the financial statements.

21. FINANCIAL INSTRUMENTS**Fair value**

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

The fair value of the investments quoted equals their stock market value the date of the financial statements. The fair value of fixed-income securities is determined using the assessment methods used in capital markets, such as discounting to the current interest rate as future cash flows.

The fair value of government subsidies receivable cannot be assessed given the absence of a market for this type of financial instrument.

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

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

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

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

Marc Mayer
Director General

Suzanne Filiatrault
Director General, Administration

Montréal, June 8, 2007

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée d'art contemporain de Montréal at March 31, 2007 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Musée's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Musée as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, June 8, 2007

MUSÉE DE LA CIVILISATION
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007				2006
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total
					Total
REVENUES					
Gouvernement du Québec subsidies					
Operations	\$18 079 875				\$18 079 875
Other (Note 4)	1 873 637		\$2 345 950	\$495 244	4 714 831
Other subsidies for specific projects	60 200				60 200
Financial sponsorships (Note 5)	423 754				423 754
Fondation du Musée de la civilisation - contribution	110 000				110 000
Admission fees	885 872				885 872
Gift shop	602 670				602 670
Exhibition loans	1 650				1 650
Franchises and rentals	558 688				558 688
Sale of goods and services	439 289				439 289
Interest on cash	198 394		30		198 424
Other	336 256				336 256
	23 570 285		2 345 980	495 244	26 411 509
Sponsorships in exchange for goods and services	2 152 732				2 152 732
Amounts carried forward	\$25 723 017		\$2 345 980	\$495 244	\$28 564 241
					\$27 156 906

MUSÉE DE LA CIVILISATION

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2007

	2007				2006	
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
Amounts brought forward	\$25 723 017		\$2 345 980	\$495 244	\$28 564 241	\$27 156 906
EXPENSES						
Salaries and fringe benefits	11 891 562		12 371	71 150	11 975 083	12 867 658
Professional services	3 349 167			185 113	3 534 280	4 058 168
Rent	152 181				152 181	340 963
Transportation and communications	1 250 690			3 231	1 253 921	1 394 115
Furniture, equipment and energy	1 597 247		(347)	65 776	1 662 676	1 765 024
Maintenance and repairs	928 946		81 905	30 587	1 041 438	1 095 995
Administrative expenses	233 676		10	2 306	235 992	139 575
Municipal and school taxes	1 226 062				1 226 062	783 590
Acquisitions for collections	97 703			2 625	100 328	78 630
	20 727 234		93 939	360 788	21 181 961	22 523 718
Interest on long-term debt	614 783		842 798		1 457 581	1 570 311
Amortization of capital assets	1 397 277		1 409 243	134 456	2 940 976	2 959 254
	2 012 060		2 252 041	134 456	4 398 557	4 529 565
Exchange for goods and services						
Professional services	1 849 021				1 849 021	114 070
Transportation and communications						236 403
Equipment and supplies	153 711				153 711	22 478
Administrative expenses	150 000				150 000	
	2 152 732				2 152 732	372 951
	24 892 026		2 345 980	495 244	27 733 250	27 426 234
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE SPECIAL ITEM						
Extraordinary gain (loss) (Note 21)	830 991 (52 168)				830 991 (52 168)	(269 328) 142 208
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES						
	\$778 823				\$778 823	\$(127 120)

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

STATEMENT OF CHANGES IN FUND BALANCES
for the year ended March 31, 2007

	2007				2006	
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
BALANCE, BEGINNING OF YEAR	\$3 032 554	\$737 430			\$3 769 984	\$3 897 104
Excess (deficiency) of revenues over expenses	<u>778 823</u>				<u>778 823</u>	<u>(127 120)</u>
	3 811 377	737 430			4 548 807	3 769 984
Interfund transfers (Note 7)	11 222	(11 222)				
Allocation of surpluses (Note 7)	<u>(590 991)</u>	<u>590 991</u>				
BALANCE, END OF YEAR (Note 8)	<u><u>\$3 231 608</u></u>	<u><u>\$1 317 199</u></u>			<u><u>\$4 548 807</u></u>	<u><u>\$3 769 984</u></u>

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

BALANCE SHEET
for the year ended March 31, 2007

	2007				2006	
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
ASSETS						
Current assets						
Cash on hand (Note 9)	\$3 959 879				\$3 959 879	\$4 256 934
Accounts receivable	421 401		\$22 358	\$38 249	482 008	725 469
Gouvernement du Québec subsidies receivable (Note 10)	2 924 778		5 727 121		8 651 899	4 988 433
Gift shop inventory (at cost)	228 837				228 837	167 903
Prepaid expenses	1 114 390				1 114 390	288 189
Interfund payables, interest-free, no encashment terms	23 712	\$1 317 199	85 587	86 400		
	8 672 997	1 317 199	5 835 066	124 649	14 437 013	10 426 928
Deferred expenses	47 469		55 548		103 017	124 807
Gouvernement du Québec subsidies receivable (Note 10)	9 079 617		10 543 971	1 759 716	21 383 304	27 011 721
Capital assets (Note 11)	32 774 438		4 575 840	1 089 238	38 439 516	40 198 165
	<u>\$50 574 521</u>	<u>\$1 317 199</u>	<u>\$21 010 425</u>	<u>\$2 973 603</u>	<u>\$74 362 850</u>	<u>\$77 761 621</u>
LIABILITIES						
Current liabilities						
Bank overdraft			\$26 935	\$117 894	\$144 829	\$115 765
Bank loans (Note 12)			1 718 150	1 547 760	3 265 910	2 504 798
Accounts payable and accrued liabilities	\$1 001 992		53 653	122 052	1 177 697	3 148 751
Accrued interest	280 622		286 259		566 881	633 636
Provision for vacation time (Note 13)	946 125				946 125	879 504
Deferred contributions (Note 14)	531 725				531 725	338 500
	<u>\$2 760 464</u>		<u>\$2 084 997</u>	<u>\$1 787 706</u>	<u>\$6 633 167</u>	<u>\$7 620 954</u>

MUSÉE DE LA CIVILISATIONBALANCE SHEET (cont'd)
for the year ended March 31, 2007

	2007					2006
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
LIABILITIES (cont'd)						
Current liabilities (cont'd)						
Amounts brought forward	\$2 760 464		\$2 084 997	\$1 787 706	\$6 633 167	\$7 620 954
Deferred revenue	121 063				121 063	119 701
Instalments on long-term debt (Note 15)	1 916 256		5 372 400		7 288 656	2 698 167
Interfund payables, interest-free, no repayment terms	1 317 199		100 878	94 821		
	<u>6 114 982</u>		<u>7 558 275</u>	<u>1 882 527</u>	<u>14 042 886</u>	<u>10 438 822</u>
Long-term liabilities						
Provision for sick leave (Note 13)	2 143 615				2 143 615	1 944 411
Deferred contributions (Note 14)	29 944 538		4 575 841	1 091 076	35 611 455	37 223 903
Long-term debt (Note 15)	9 139 778		8 876 309		18 016 087	24 384 501
	<u>47 342 913</u>		<u>21 010 425</u>	<u>2 973 603</u>	<u>69 814 043</u>	<u>73 991 637</u>
FUND BALANCES						
Invested in capital assets	2 938 525				2 938 525	3 032 554
Inhouse allocations (Note 8)		\$1 317 199			1 317 199	737 430
Not allocated	293 083				293 083	
	<u>3 231 608</u>	<u>1 317 199</u>			<u>4 548 807</u>	<u>3 769 984</u>
	<u>\$50 574 521</u>	<u>\$1 317 199</u>	<u>\$21 010 425</u>	<u>\$2 973 603</u>	<u>\$74 362 850</u>	<u>\$77 761 621</u>

COMMITMENTS (Note 20)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Henri Grondin
Louise Milot

MUSÉE DE LA CIVILISATION

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$778 823	\$(127 120)
Elements not affecting liquid assets		
Amortization of deferred expenses	21 790	19 225
Amortization of capital assets	2 940 976	2 959 254
Amortization of deferred contributions	(2 789 757)	(2 814 230)
Uncapitalized expenses	(461 140)	(183 212)
Interest capitalized to the bank borrowing	76 113	16 633
Extraordinary loss	52 168	
	<u>618 973</u>	<u>(129 450)</u>
Change in assets and liabilities of the		
Working Capital Fund:		
Accounts receivable	243 461	184 819
Gouvernement du Québec subsidies receivable	(3 663 466)	(1 458 043)
Gift shop inventory	(60 934)	14 586
Prepaid expenses	(826 201)	107 276
Deferred expenses		(38 479)
Accounts payable and accrued liabilities	(2 054 395)	1 310 371
Accrued interest	(66 755)	(7 799)
Provision for vacation time	66 621	(12 620)
Deferred contributions	193 225	(69 246)
Deferred revenue	1 362	(15 941)
Provision for sick leave	199 204	104 066
	<u>(5 967 878)</u>	<u>118 990</u>
Cash flows from operating activities	<u>(5 348 905)</u>	<u>(10 460)</u>
FINANCING ACTIVITIES		
Bank loans	684 999	(3 689 524)
Gouvernement du Québec subsidies received	7 266 866	2 678 944
Long-term debt	920 242	5 618 341
Long-term debt repayment	<u>(2 698 167)</u>	<u>(2 215 817)</u>
Cash flows from financing activities	<u>6 173 940</u>	<u>2 391 944</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets and cash flows for investment activities	<u>(1 151 154)</u>	<u>(2 073 861)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(326 119)	307 623
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 141 169</u>	<u>3 833 546</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 18)	<u><u>\$3 815 050</u></u>	<u><u>\$4 141 169</u></u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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 ensure Québec's participation in the international network of museological events through acquisitions, exhibitions and other cultural activities.

The Musée de la Civilisation has been recognized as a charitable organization under the Income Tax Act and is, consequently, eligible for the tax exemption (federal and provincial) pertaining to such organizations.

2. FUND PURPOSES

The Working Capital Fund presents the assets, liabilities, revenues and expenses related to the Musée's current operations and commercial activities such as gift shop and restaurant operations and exhibition and room rental. The Musée requires the Government's authorization to acquire, dispose of, mortgage or lease a building.

At fiscal year-end, any excess in revenues over expenses of more than \$50 000 in the Working Capital Fund is transferred to the Exhibition Fund. Should the year-end balance of the Reserve Fund's exhibition reserve exceed \$600 000, the Musée can choose to transfer the surplus or not.

The **Asset Maintenance Fund** presents the assets, liabilities, revenues and expenses for the different orders-in-council of the Gouvernement du Québec's Asset Maintenance Program.

The **Special Projects Fund** groups together various projects whose financing is ensured via loan orders-in-council specifically authorized by the Ministère de la Culture.

The **Reserve Fund** groups the operations of various reserves that were created by a Board of Directors' decision using Working Capital Fund surpluses. At March 31, 2007, this Fund grouped the reserves posted in the financial statements as at March 31, 2006.

These reserves are:

Car insurance reserve used to cover the \$25 000 deductible stipulated in the Gouvernement du Québec's car insurance order-in-council.

Preventive improvements – damages reserve used to implement preventive measures at the Musée to protect goods as best possible from outside events beyond its control.

Exhibition reserve used to finance Musée exhibitions when there is an annual fluctuation in exhibition rental, thereby stabilizing the financing targeted by three-year planning. The amounts from this fund are used for temporary exhibitions and, in some cases, related activities.

3. ACCOUNTING POLICIES

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

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. ACCOUNTING POLICIES (cont'd)

Contribution reporting

Contributions include subsidies, sponsorships and contributions obtained to produce exhibitions.

Contributions are recorded using the deferral method. Appropriated contributions are posted to revenue in the year the related expenditure is incurred. Non-appropriated contributions are posted to revenue when received or receivable if the amount can be reasonably estimated and its recovery is reasonably certain.

Revenue reporting

Revenues from ticket sales, exhibition, concession and other rentals and service sales are reported when the service is rendered to the client.

Gift shop proceeds and revenues from the sale of products are reported when the good is given to the customer.

Gouvernement du Québec subsidies receivable

Subsidies receivable for capital assets and their maintenance are posted in the fiscal year the Musée obtained the financing or performed the work entitling it to these subsidies.

Cash and cash equivalents

It is the Musée's policy to present 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 as cash and cash equivalents.

Pension plans

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

Acquisitions for Musée collections

Works purchased for the Musée's collections are charged to operations. Donated works are not recorded in the financial statements.

Gift shop inventory

The inventory of the Musée's gift shop is valued at the lower of cost and net realizable value (cost – net value). Cost is determined by the first in, first out (FIFO) method.

Deferred expenses

Long-term debt issue expenses are deferred and amortized over the term of the debt on a straight-line basis.

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.

MUSÉE DE LA CIVILISATIONNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. ACCOUNTING POLICIES (cont'd)****Volunteer services**

Due to the difficulty in determining the fair value of the services provided free of charge by volunteers, they are not considered in the Musée's revenues and expenses.

Capital assets

Capital assets are recorded at cost or, if acquired free of charge, at the municipal assessment value on the date of acquisition. They are amortized on a straight-line basis over their estimated service life as follows:

Buildings	40 years
Building additions and furnishings	10 years
Leasehold improvements	10 years
Furniture and equipment	5 years
Handling, storage, processing and production equipment	5 years
Lighting and sound equipment	5 years
Commercial activity equipment	5 years
Data processing and audiovisual equipment	3 years

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES – OTHER

	2007	2006
Working Capital Fund		
Specific projects	\$12 797	\$124 319
Pay equity		1 227 203
Repayment of interest on long-term debt	614 782	689 433
Amortization of deferred contributions *	1 246 058	1 247 933
	<u>1 873 637</u>	<u>3 288 888</u>
Assets Maintenance Fund		
Repayment of interest on long-term debt	836 355	873 183
Amortization of deferred contributions *	1 409 243	1 450 786
Uncapitalized expenses	100 352	151 686
	<u>2 345 950</u>	<u>2 475 655</u>
Special Projects Fund		
Amortization of deferred contributions *	134 456	115 511
Uncapitalized expenses	360 788	31 526
	<u>495 244</u>	<u>147 037</u>
	<u>\$4 714 831</u>	<u>\$5 911 580</u>

* Deferred contributions are amortized at the same rate as capital assets.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. FINANCIAL SPONSORSHIPS**

	2007	2006
Working Capital Fund		
Specific sponsorships received for showing exhibitions and specific projects	\$408 154	\$178 791
Gouvernement du Québec contributions for showing exhibitions	15 600	254 292
	<u>\$423 754</u>	<u>\$433 083</u>

6. SALARIES AND FRINGE BENEFITS

In 2005-2006, the Musée worked in a pay equity context. A retroactive amount of \$1 227 203 was posted to accounts payable in 2005-2006 and paid to employees in fiscal 2006-2007. Pay equity increased out annual obligations by \$475 000.

As of January 2007, the CSST contribution rose from 0.85% to 1.33% because the different museums changed category. This represents a 56% increase and this decision is currently being contested.

7. INTERFUND TRANSFERS

An amount of \$11 222 from the Reserve Fund's Preventive improvements – damages reserve was transferred to the Working Capital Fund to cover the cost of studying the electrical safety of the building located at 85 rue Dalhousie.

Musée management transferred the \$590 991 surplus from the Working Capital Fund to the Reserve Fund's exhibitions reserve.

8. FUND BALANCE AT THE END

At March 31, the Reserve Fund breaks down as:

	2007	2006
Car insurance reserve	\$25 000	\$25 000
Preventive improvements – damages reserve	91 412	102 634
Exhibitions reserve	1 200 787	609 796
	<u>\$1 317 199</u>	<u>\$737 430</u>

9. CASH

Cash bears interest on a daily basis at the prime rate less 1.75%. At March 31, 2007, the rate was 4.25% (2006: 3.75%).

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable entered as current assets are:

	2007	2006
Working Capital Fund		
Interest accrued on long-term debt	\$280 622	\$316 978
Capital repayments on long-term debt payable in the coming fiscal year	1 916 256	1 486 117
Other subsidies receivable	<u>727 900</u>	<u>1 633 603</u>
	<u>2 924 778</u>	<u>3 436 698</u>
Asset Maintenance Fund		
Interest accrued on long-term debt	286 262	311 837
Capital repayments on long-term debt payable in the coming fiscal year	5 372 400	1 212 050
Other subsidies receivable	<u>68 459</u>	<u>27 848</u>
	<u>5 727 121</u>	<u>1 551 735</u>
	<u><u>\$8 651 899</u></u>	<u><u>\$4 988 433</u></u>
Long-term subsidies receivable are:		
Working Capital Fund		
Opening balance of subsidies receivable	\$10 986 374	\$13 783 360
Amortization of deferred issuing costs	9 499	9 499
Subsidies – Le Temps des Québécois		4 057
Capital subsidies on long-term debt		<u>(1 324 425)</u>
	10 995 873	12 472 491
Capital repayments on long-term debt payable in the coming fiscal year	<u>(1 916 256)</u>	<u>(1 486 117)</u>
Balance of long-term subsidies receivable	<u>9 079 617</u>	<u>10 986 374</u>
Asset Maintenance Fund		
Opening balance of subsidies receivable	14 847 399	15 825 399
Subsidies – Capital assets and asset maintenance	1 056 681	1 115 716
Amortization of deferred issuing costs	12 291	9 726
Capital subsidies on long-term debt		<u>(891 392)</u>
Balance of subsidies receivable at year-end	15 916 371	16 059 449
Capital repayments on long-term debt payable in the coming fiscal year	<u>(5 372 400)</u>	<u>(1 212 050)</u>
Balance of long-term subsidies receivable	<u>10 543 971</u>	<u>14 847 399</u>
Special Projects Fund		
Opening balance of subsidies receivable	1 177 948	107 956
Subsidies – Trajectoires	477 656	1 069 992
Subsidies – Toitures et maçonnerie	<u>104 112</u>	
	<u>1 759 716</u>	<u>1 177 948</u>
	<u><u>\$21 383 304</u></u>	<u><u>\$27 011 721</u></u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. CAPITAL ASSETS**

	2007			2006
	Cost	Cumulated depreciation	Net	Net
Total capital assets				
Lands	\$2 480 722		\$2 480 722	\$2 532 891
Buildings	51 192 988	\$20 215 559	30 977 429	32 263 084
Building additions and developments	12 289 311	9 098 791	3 190 520	2 945 115
Leasehold improvements	4 409 910	3 564 303	845 607	1 006 730
Furnishings and equipment	2 095 251	2 041 700	53 551	17 120
Handling, storage, transformation and production equipment	2 662 693	2 117 145	545 548	990 367
Lighting and sound equipment	782 392	772 546	9 846	16 904
Commercial activities equipment	156 224	142 927	13 297	21 740
Computer and audiovisual equipment	2 200 824	1 877 828	322 996	404 214
	<u>\$78 270 315</u>	<u>\$39 830 799</u>	<u>\$38 439 516</u>	<u>\$40 198 165</u>

	2007			Total
	Operating Fund	Asset Maintenance Fund	Special Projects Fund	
Net value by fund				
Lands	\$2 480 722			\$2 480 722
Buildings	29 888 079	\$1 089 350		30 977 429
Building additions and developments	355 083	1 746 199	\$1 089 238	3 190 520
Leasehold improvements	1 800	843 807		845 607
Furnishings and equipment	20 147	33 404		53 551
Handling, storage, transformation and production equipment		545 548		545 548
Lighting and sound equipment	9 500	346		9 846
Commercial activities equipment		13 297		13 297
Computer and audiovisual equipment	19 107	303 889		322 996
	<u>\$32 774 438</u>	<u>\$4 575 840</u>	<u>\$1 089 238</u>	<u>\$38 439 516</u>

12. BANK LOANS

All of the Musée's loans are guaranteed by the Gouvernement du Québec and renewable annually.

All bank borrowings bear interest at the prime rate, which, at March 31, 2007 was 6.00% (2006: 5.50%).

Working Capital Fund

The Gouvernement du Québec authorized the Musée to contract short-term borrowings of \$3 000 000. At March 31, 2007, there was no short-term borrowing (2006: nil).

Asset Maintenance Fund

Le Gouvernement du Québec authorized the Musée to borrow a maximum of \$4 082 218 (2006: \$3 021 314).

With the financial institution, the Musée has a borrowing agreement for a maximum of \$3 021 314 (2006: \$3 021 314). At March 31, 2007, the balance of short-term borrowings was \$1 718 150 (2006: \$1 346 676).

MUSÉE DE LA CIVILISATIONNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**12. BANK LOANS (cont'd)****Special Projects Fund**

The Gouvernement du Québec authorized the Musée to borrow a maximum of \$6 549 850 (2006: \$2 575 500).

With the financial institution, the Musée has a borrowing agreement for a maximum of \$2 575 500 (2006: \$2 575 500). At March 31, 2007, the balance of short-term borrowings was \$1 547 760 (2006: \$1 158 122).

13. FUTURE FRINGE BENEFITS**Pension plans**

Musée de la Civilisation staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement total \$560 002 (2006: \$474 170). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2007		2006	
	Vacation time	Sick leave	Vacation time	Sick leave
Balance, beginning of year	\$879 504	\$1 944 411	\$892 124	\$1 840 345
Annual expenses	877 405	582 500	784 903	473 399
Benefits paid during year	(810 784)	(383 296)	(797 523)	(369 333)
Balance, end of year	<u>\$946 125</u>	<u>\$2 143 615</u>	<u>\$879 504</u>	<u>\$1 944 411</u>

14. DEFERRED CONTRIBUTIONS

Short-term deferred contributions are linked to amounts received during the fiscal year to cover expenses for certain exhibitions beginning or running into subsequent fiscal years. Changes in the short-term balance are:

	2007	2006
Working Capital Fund		
Opening balance	\$338 500	\$407 746
New contributions for the fiscal year	(337 948)	(458 083)
Amount received for subsequent fiscal years	<u>531 173</u>	<u>388 837</u>
Closing balance	<u>\$531 725</u>	<u>\$338 500</u>

With the following breakdown:

Gouvernement du Québec	\$333 225	\$293 800
Other deferred contributions	<u>198 500</u>	<u>44 700</u>
	<u>\$531 725</u>	<u>\$338 500</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. DEFERRED CONTRIBUTIONS (cont'd)**

Long-term deferred contributions include Gouvernement du Québec commitments for capital assets and their maintenance and the permanent exhibitions Le Temps des Québécois and Territoires. Changes in the long-term balance are:

	2007	2006
Working Capital Fund		
Opening balance	\$31 190 596	\$32 434 471
Subsidy – Le Temps des Québécois		4 058
Amortization of deferred contributions	<u>(1 246 058)</u>	<u>(1 247 933)</u>
Closing balance	<u>29 944 538</u>	<u>31 190 596</u>
Asset Maintenance Fund		
Opening balance	5 028 755	5 518 662
Subsidies – Asset maintenance	1 056 681	1 112 565
Amortization of deferred contributions	(1 409 243)	(1 450 786)
Uncapitalized expenses	<u>(100 352)</u>	<u>(151 686)</u>
Closing balance	<u>4 575 841</u>	<u>5 028 755</u>
Special Projects Fund		
Opening balance	1 004 552	78 445
Subsidies special projects	581 768	1 073 144
Amortization of deferred contributions	(134 456)	(115 511)
Uncapitalized expenses	<u>(360 788)</u>	<u>(31 526)</u>
	<u>1 091 076</u>	<u>1 004 552</u>
	<u>\$35 611 455</u>	<u>\$37 223 903</u>

15. LONG-TERM DEBT

	2007	2006
Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec.		
Working Capital Fund		
a) 7.16% repayable in annual instalments of \$86 073 on the principal of the borrowing, maturing October 1, 2007	\$516 440	\$602 514
b) 5.48% repayable in annual instalments of \$432 898 on the principal of the borrowing, maturing October 24, 2008	865 796	1 298 695
c) 5.39% repayable in annual instalments of \$210 070 on the principal of the borrowing, maturing April 2, 2007	210 070	420 141
d) 5.149% repayable in annual instalments of \$508 413 on the principal of the borrowings, maturing October 1, 2013	8 643 016	9 151 426
e) 4.153% repayable in annual instalments of \$86 971 on the principal of the borrowing, maturing October 1, 2008	173 942	260 913
f) 3.892% repayable in annual instalments of \$161 692 on the principal of the borrowings, maturing May 10, 2010	<u>646 770</u>	<u>808 462</u>
	11 056 034	12 542 151
Instalments due within one year	<u>(1 916 256)</u>	<u>(1 486 117)</u>
Amounts carried forward	<u>\$9 139 778</u>	<u>\$11 056 034</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

15. LONG-TERM DEBT (cont'd)

	2007	2006
Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec. (cont'd)		
Amounts brought forward	\$9 139 778	\$11 056 034
Asset Maintenance Fund		
a) 7.16% repayable in annual instalments of \$79 547 on the principal of the borrowing, maturing October 1, 2007	477 280	556 826
b) 6.85% repayable in annual instalments of \$306 580 on the principal of the borrowing, maturing October 1, 2007	3 985 540	4 292 120
c) 5.95% repayable in annual instalments of \$420 737 on the principal of the borrowing, maturing December 1, 2010	4 207 371	4 628 109
d) 4.311% repayable in annual instalments of \$84 528 on the principal of the borrowing, maturing October 1, 2008	169 056	253 583
e) 4.937% repayable in annual instalments of \$320 658 on the principal of the borrowing, maturing July 16, 2020	4 489 220	4 809 879
f) 4.379% repayable in annual instalments of \$83 658 on the principal of the borrowing, maturing May 10, 2017	920 242	
	14 248 709	14 540 517
Instalments due within one year	(5 372 400)	(1 212 050)
	8 876 309	13 328 467
	\$18 016 087	\$24 384 501

Principal payments on these borrowings are made annually and interest payments biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years, assuming that these amounts will be refinanced at the same conditions on maturing, are:

2008	\$7 288 656
2009	2 099 555
2010	1 495 158
2011	4 019 582
2012	912 729

16. RELATED PARTY TRANSACTIONS

The Fondation du Musée de la Civilisation, which is subject to significant influence by the Musée, was established under Part III of the Québec Companies Act to solicit funds to finance the Musée's cultural and educational activities. In accordance with the regulations governing the Fondation, contributions may be paid to the Musée de la Civilisation only if the Fondation posts a surplus of \$300 000. Furthermore, should the Fondation wind down, its net assets would be remitted to the Musée. The Fondation's net assets as at March 31, 2007 amounted to \$882 781 (2006: \$775 746). 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 national des beaux-arts du Québec agreed, under a long-term occupancy agreement ending June 27, 2023, to rent spaces of the Réserve muséale de la Capitale nationale. Rental income totalled \$177 588 at March 31, 2007 (2006: \$180 904).

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.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**17. WORKS DONATED FOR MUSÉE COLLECTIONS**

The Musée gives receipts for works donated. Their value is certified by the Canadian Cultural Property Export Review Board. The cumulative value of works donated since 1991 breaks down as:

	2007	2006
Balance, beginning of year	\$4 218 728	\$3 966 961
Receipt issued	262 415	251 767
Balance, end of year	<u>\$4 481 143</u>	<u>\$4 218 728</u>

18. CASH FLOWS

Cash and cash equivalents break down as follows at March 31, 2007:

	2007	2006
Cash		
Cash	\$3 959 879	\$4 256 934
Bank overdraft	<u>(144 829)</u>	<u>(115 765)</u>
	<u>\$3 815 050</u>	<u>\$4 141 169</u>

Interest paid

	2007	2006
Interest paid on Financing Fund	<u>\$1 491 280</u>	<u>\$1 537 462</u>

The non-monetary operations of operating, financing and investments activities break down as:

Acquisition of capital assets in consideration of creditors	<u>\$83 341</u>	<u>\$191 367</u>
Subsidies receivable recorded as deferred contributions	<u>\$1 638 449</u>	<u>\$2 189 767</u>

19. FAIR VALUE OF FINANCIAL INSTRUMENTS**Gouvernement du Québec subsidies receivable**

The fair value of Gouvernement du Québec subsidies receivable cannot be evaluated given the absence of a market for this type of financial instrument.

Long-term debt

At March 31, 2007 the fair value of the long-term debt of \$25 304 742 (2006: \$27 082 668) was \$26 576 112 (2006: \$28 494 732), given the discounting of cash flows at market rates for certificates with similar terms and interest rates.

Short-term financial instruments

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

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

20. COMMITMENTS

The Musée is committed under contracts to paying \$2 168 017, divided primarily between mechanical equipment maintenance work (\$1 183 479), exhibitions and activities being prepared (\$489 743). Amounts payable in coming fiscal years are: \$920 896 (2008), \$526 516 (2009), \$353 135 (2010), \$318 035 (2011) and \$49 435 (2012).

21. EXTRAORDINARY GAIN (LOSS)

In 2007, the Musée posted a loss of \$52 168, the equivalent of a portion of the property at 85, Dalhousie ceded free of charge to the Ville de Québec under an agreement predating 1988 for the development of an unloading area that belongs to the city. The change resulting from this agreement was not reflected on property titles when the Musée was transferred in 1989.

In 2006, the gain reflected corresponded to the amount insurers had agreed to repay for labour costs incurred by the Musée to repair the basement following the flooding that occurred in December 2004. This work had been done and posted in fiscal 2004-2005 for the most part, but the insurance compensation was granted and posted in fiscal 2005-2006.

22. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MUSÉE DE LA CIVILISATION

MANAGEMENT'S REPORT

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

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

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

Claire Simard
Director General

Danielle Poiré
Director of Curatorship and Administration

Québec, May 17, 2007

MUSÉE DE LA CIVILISATION**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée de la Civilisation as at March 31, 2007 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Musée's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of the Musée as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 17, 2007

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007					2006
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Capital Assets Fund	Endow- ment Fund	Total
						Total
REVENUES						
Gouvernement du Québec subsidies (Note 4)	\$10 908 358			\$3 323 087		\$14 231 445
Government of Canada subsidies (Note 5)	268 651					268 651
Admission and cloakroom fees	1 306 032					1 306 032
Parking		\$214 609				214 609
Giftshop and publications		820 076				820 076
Royalties – Food services		170 980				170 980
Space rental and ancillary services	5 600	309 113				314 713
Works of art and exhibitions on loan	485 336					485 336
Educational and cultural activities	213 159					213 159
Sponsorships and publicity	394 069					394 069
Contribution – Fondation du Musée national des beaux-arts du Québec (Note 7)	56 550					56 550
Art work donations (Note 8)	3 287 429					3 287 429
Other contributions and partnerships	178 121					178 121
Investment income (Note 9)	212 720	14 415	\$41 443			268 578
Other	42 941					42 941
Amounts carried forward	\$17 358 966	\$1 529 193	\$41 443	\$3 323 087		\$22 252 689
						\$28 548 571

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2007

	2007					2006
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Capital Assets Fund	Endow- ment Fund	Total
						Total
EXPENSES						
Amounts brought forward	\$17 358 966	\$1 529 193	\$41 443	\$3 323 087		\$22 252 689
						\$28 548 571
EXPENSES						
Salaries and fringe benefits	6 900 575	278 861				7 179 436
Energy, taxes and insurance	1 088 418					1 088 418
Professional, administrative and other services	1 693 015	97 836				1 790 851
Maintenance, repairs and development	996 552	9 265		158 852		1 164 669
Transportation and communications	1 605 508	3 030				1 608 538
Materials and supplies	638 984	315 165				954 149
Room rental	215 867					215 867
Acquisition of works of art (Note 8)	4 632 482					4 632 482
Exhibition rental	325 580					325 580
Interest on long-term debt	76 667			1 344 282		1 420 949
Other interest				48 715		48 715
Amortization of deferred expenses				15 185		15 185
Amortization of capital assets				1 756 053		1 756 053
	18 173 648	704 157		3 323 087		22 200 892
						28 071 460
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$(814 682)	\$825 036	\$41 443			\$51 797
						\$477 111

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CHANGES IN FUND BALANCES
for the year ended March 31, 2007

	2007					2006	
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Capital Assets Fund	Endow- ment Fund	Total	Total
FUND BALANCES, BEGINNING OF YEAR	\$5 012	\$400 000	\$1 000 000	\$1 426 657	\$1 043 716	\$3 875 385	\$3 398 274
Excess (deficiency) of revenues over expenses	(814 682)	825 036	41 443			51 797	477 111
Contribution (Note 14)				3 900 000		3 900 000	
Interfund transfers (Note 10)	825 036	(825 036)					
FUND BALANCES, END OF YEAR	<u>\$15 366</u>	<u>\$400 000</u>	<u>\$1 041 443</u>	<u>\$5 326 657</u>	<u>\$1 043 716</u>	<u>\$7 827 182</u>	<u>\$3 875 385</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007					2006
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
ASSETS						
Current assets						
Cash on hand, 4.1%	\$1 340 966	\$753 034		\$213	\$1 480	\$2 095 693
Short-term investments (Note 11)	103 400				82 931	186 331
Accounts receivable and accrued interest (Note 12)	1 004 345	1 599	\$3 614	1 506 954	5	2 516 517
Interfund receivables, interest-free and no encashment terms	47 358		1 037 829			
Subsidies receivable Gouvernement du Québec (Note 13)	434 205			3 927 194		4 361 399
Government of Canada	23 305					23 305
Stocks		384 598				384 598
Prepaid expenses	535 779					535 779
	<u>3 489 358</u>	<u>1 139 231</u>	<u>1 041 443</u>	<u>5 434 361</u>	<u>84 416</u>	<u>10 103 622</u>
Contribution receivable (Note 14)	550 000			1 500 000		2 050 000
Long-term portfolio investments (Note 11)	2 049 674				1 269 940	3 319 614
Deferred expenses				150 785		150 785
Gouvernement du Québec subsidies receivable (Note 13)	106 378			20 224 708		20 331 086
Capital assets (Note 15)				29 466 864		29 466 864
	<u>\$6 195 410</u>	<u>\$1 139 231</u>	<u>\$1 041 443</u>	<u>\$56 776 718</u>	<u>\$1 354 356</u>	<u>\$65 421 971</u>
						<u>\$61 038 589</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2007

	2007					2006
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
						Total
LIABILITIES						
Current liabilities						
Bank overdraft						\$1 907
Bank loans (Note 16)				\$1 372 000	\$1 372 000	684 000
Accounts payable and accrued liabilities (Note 17)	\$1 975 122	\$30 108			2 005 230	1 294 003
Provision for vacation time (Note 22)	664 210				664 210	695 872
Interfund receivables, interest-free and no repayment terms		709 123		65 424	\$310 640	
Accrued interest	73 154			585 172	658 326	755 589
Client deposits and deferred income	278 969				278 969	420 669
Deferred contributions (Note 18)	255 450				255 450	213 803
Instalments on long-term debt (Note 19)	495 550			4 829 360	5 324 910	2 653 195
	3 742 455	739 231		6 851 956	310 640	10 559 095
Provision for sick leave (Note 22)	846 976				846 976	794 976
Deferred investment income	484 235				484 235	404 637
Deferred contributions (Note 18)				24 293 234	24 293 234	25 408 619
Long-term debt (Note 19)	1 106 378			20 304 871	21 411 249	23 835 934
	6 180 044	739 231		51 450 061	310 640	57 594 789
						57 163 204
FUND BALANCES						
Capital asset investments				5 326 657	5 326 657	1 426 657
Internal restrictions		400 000	\$1 041 443		1 043 716	2 443 716
Non-appropriated funds	15 366				15 366	5 012
	15 366	400 000	1 041 443	5 326 657	1 043 716	7 827 182
						3 875 385
	\$6 195 410	\$1 139 231	\$1 041 443	\$56 776 718	\$1 354 356	\$65 421 971
						\$61 038 589

COMMITMENTS (Note 24)**CONTINGENCIES** (Note 25)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre Lassonde
Robert Parizeau

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007						2006
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Capital Assets Fund	Endow- ment Fund	Total	Total
OPERATING ACTIVITIES							
Excess (deficiency) revenues over expenses	\$(814 682)	\$825 036	\$41 443			\$51 797	\$477 111
Items not affecting liquid assets							
Amortization of deferred expenses				\$15 185		15 185	19 294
Amortization of capital assets				1 756 053		1 756 053	1 811 314
Amortization of deferred contributions – long term				(1 930 090)		(1 930 090)	(2 011 801)
	(814 682)	825 036	41 443	(158 852)		(107 055)	295 918
Changes in assets and liabilities related to operations (Note 20)	(26 474)	(24 517)	(3 614)	(1 210 007)		(1 264 612)	107 030
Cash flows related to operating activities	(841 156)	800 519	37 829	(1 368 859)		(1 371 667)	402 948
INVESTMENT ACTIVITIES							
Acquisition of investments	(596 744)				\$(388 670)	(985 414)	(384 201)
Proceeds from disposal of investments	305 000				222 000	527 000	151 000
Acquisitions of capital assets				(1 481 548)		(1 481 548)	(538 924)
Cash flows related to investments activities	(291 744)			(1 481 548)	(166 670)	(1 939 962)	(772 125)
Amounts carried forward	\$(1 132 900)	\$800 519	\$37 829	\$(2 850 407)	\$(166 670)	\$(3 311 629)	\$(369 177)

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2007

	2007					2006	
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total	Total
Amounts brought forward	<u>\$(1 132 900)</u>	<u>\$800 519</u>	<u>\$37 829</u>	<u>\$(2 850 407)</u>	<u>\$(166 670)</u>	<u>\$(3 311 629)</u>	<u>\$(369 177)</u>
FINANCING ACTIVITIES							
Contributions received	572 000			893 046		1 465 046	1 144 000
Gouvernement du Québec subsidies	35 460			3 329 360		3 364 820	2 008 436
Bank loans				688 000		688 000	(3 970 900)
Long-term debt							4 672 343
Repayment of long-term debt	<u>(555 415)</u>			<u>(2 997 780)</u>		<u>(3 553 195)</u>	<u>(2 290 895)</u>
Cash flows related to financing activities	<u>52 045</u>			<u>1 912 626</u>		<u>1 964 671</u>	<u>1 562 984</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1 080 855)</u>	<u>800 519</u>	<u>37 829</u>	<u>(937 781)</u>	<u>(166 670)</u>	<u>(1 346 958)</u>	<u>1 562 984</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 928 858</u>	<u>711 622</u>		<u>(1 907)</u>	<u>164 713</u>	<u>2 803 286</u>	<u>1 626 684</u>
Interfund cash flow	<u>596 363</u>	<u>(759 107)</u>	<u>(37 829)</u>	<u>939 901</u>	<u>86 368</u>	<u>825 696</u>	<u>(17 205)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	<u>\$1 444 366</u>	<u>\$753 034</u>		<u>\$213</u>	<u>\$84 411</u>	<u>\$2 282 024</u>	<u>\$2 803 286</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée national des beaux-arts 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 under the Income Tax Act and, as a result, is eligible for the tax exemption applicable to such organizations.

2. FUND OBJECTIVES

The Operating Fund presents the Musée's current operations.

The Commercial Activities Fund presents the Musée's commercial activities such as operation of the bookstore-giftshop, publications, parking and space rental. Under a regulation approved by the Government, the balance of this Fund, which must be used to fund the Musée's commercial activities, may not exceed \$400 000. The Fund's balance must be used to repay loans or finance Musée activities.

The Exhibition Fund was created to finance major international exhibitions whose costs, notably rental and transport, exceed the Musée's operating subsidy or, exceptionally, to fund activities related to these exhibitions. Under a regulation approved by the Board of Directors, the balance of this fund may not exceed \$2 000 000.

The Capital Assets Fund presents the assets, liabilities, products and charges related to capital assets. That portion of the Fund's balance that is not invested in capital assets is reserved for the acquisition of capital assets for the Musée and the payment of related fees. Moreover, the Musée may not, without the Government's prior authorization, acquire, dispose of, mortgage or rent an immovable.

The Endowment Fund presents 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 capital assets and the acquisition of works of art for the Musée collection.

3. ACCOUNTING POLICIES

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

Contributions reporting

The contributions presented in the Operating Fund include subsidies, sponsorships and other amounts obtained primarily for the realization of exhibitions and the purchase of works of art. The contributions presented in the Capital Assets Fund include Gouvernement du Québec subsidies for capital assets and their maintenance.

The Musée uses the deferred method to report contributions. Appropriated contributions are reported as proceeds for the fiscal year in which the related expenses are incurred. Unappropriated contributions are reported as revenues when they are received or receivable if the amount receivable can be reasonably estimated and its recovery is reasonably certain.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. ACCOUNTING POLICIES (cont'd)

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.

Revenue reporting

Revenue from ticket sales, cloakroom, parking, food service royalties, space rental and related services, art work and exhibition rental, dissemination, educational and cultural activities are posted when the service is rendered to the client.

Revenues from giftshop sales and publications are posted when the good is given to the client.

Investment income

Interest income is reported according to the number of days the investment is held during the fiscal year. Gains or losses on the sale of investments are determined using the average cost method. Redistribution of capital is posted when these amounts are cashed.

Works of art

Acquisitions of works of art are charged to the General Fund.

Art works acquired through donations are posted to Operating Fund revenues and expenses once all of the related conditions have been fulfilled. The value of works of art acquired through donations is determined by experts and generally sanctioned by the Canadian Cultural Property Export Review Board. Should the donor not accept the Commission's decision, he or she may, within twelve months' of receiving notice of the Commission's first assessment, ask it to reassess the work's fair market value. In such cases, value adjustments are reported in the fiscal year in which the new assessment is released. When the Commission releases its decision after the date the financial statements are produced and the fair value it determines differs from the value determined by the expertise used to determine the acquisition, the value adjustment is posted in the fiscal year following the final calculation.

Endowments

Endowments are recorded as a direct increase in the Endowment Fund's balance, whereas the investment income earned by this Fund is entered as deferred investment income in the Operating Fund and posted to revenue from the appropriate fund in the fiscal year in which the related charges are incurred.

Inventory

Inventory is valued at the lesser of cost and net realizable value. Cost is determined using the first in, first out (FIFO) method.

Investments

Portfolio investments are recorded at cost. Any lasting drop in value is reduced by the investments' book value, where applicable.

Deferred expenses

Discounts and long-term debt issue expenses are deferred and amortized over the debt's term. 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 over periods of 5 and 15 years.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. ACCOUNTING POLICIES (cont'd)****Subsidies receivable**

Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year the Musée obtains the funding or carries out the work entitling it to these subsidies.

Capital assets

Capital assets are posted at cost or, if acquired free of charge, at the municipal assessment value on the date of acquisition. They are amortized over their estimated service life on a diminishing-balance basis, at the following rates:

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

Customer deposits and deferred revenues

Deferred revenues comprise amounts invoiced for services not yet rendered and customer deposits cashed in advance, in keeping with contractual agreements.

Deferred contributions

The deferred contributions presented in the General Fund are designed mainly to cover the expenses of certain exhibitions beginning or continuing into subsequent fiscal years and are transferred to revenue in the fiscal year in which the related charges are incurred.

The deferred contributions presented in the Capital Assets Fund are for capital assets and their maintenance and are posted to revenue using the same method and service life as for amortization of the related capital assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand minus bank overdrafts, short-term investments that are highly liquid and easily convertibles into a know amount of cash whose value is unlikely to change significantly.

Pension plans

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

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2007			2006
	General Fund	Capital Assets Fund	Total	Total
Operating expenses	\$10 633 700		\$10 633 700	\$9 970 181
Specific projects *	269 000		269 000	127 400
Interest on long-term debt and other interest	5 658	\$1 392 997	1 398 655	1 495 736
Long term – Amortization of deferred Gouvernement du Québec contributions		1 930 090	1 930 090	2 011 801
	<u>\$10 908 358</u>	<u>\$3 323 087</u>	<u>\$14 231 445</u>	<u>\$13 605 118</u>

* These subsidies are obtained primarily for exhibitions.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. GENERAL FUND - GOVERNMENT OF CANADA SUBSIDIES

	2007	2006
Foreign Affairs and International Trade	\$25 200	\$4 800
Heritage Canada	13 305	79 045
Canada Council	230 146	249 520
	<u>\$268 651</u>	<u>\$333 365</u>

6. NON-MONETARY TRANSACTIONS – OPERATING FUND

The Musée exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the following items in the statement of operations at the fair value of the goods and services exchanged:

	2007	2006
Revenues		
Admission and cloakroom fees	\$7 968	\$9 596
Room rental and related services	5 600	77 682
Sponsorships and publicity	102 819	103 550
	<u>\$116 387</u>	<u>\$190 828</u>
Expenses		
Salaries and fringe benefits	\$2 000	
Professional, administrative and other services	3 524	\$31 593
Rental of equipment and space		44 464
Transportation and communications	109 417	114 771
Supplies	1 446	
	<u>\$116 387</u>	<u>\$190 828</u>

7. GENERAL FUND – FONDATION DU MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC CONTRIBUTION

The Fondation du Musée national des beaux-arts du Québec, on which the Musée exercises notable influence, is incorporated under Part III of the Québec Companies Act and promotes the Musée national des beaux-arts du Québec's interests in carrying out its mandate, enriching the Musée's permanent collection, and seeking and receiving donations, subsidies, bequests and other contributions of a similar nature. To help the Fondation fulfil its mandate, the Musée provides it with office space and staff required for smooth operation. Should the Fondation wind down, the full balance of funds would be remitted to the Musée. Fund balances as at March 31, 2007 totalled \$595 531 (2006: \$320 936). In the fiscal year, the Fondation contributed \$56 550 (2006: \$0).

8. GENERAL FUND – WORKS OF ARTS

Works owned by the Musée du Québec are divided between the permanent and study collections and the collection of works for loan.

The Musée's permanent and study collection comprises art work in the following categories: architecture, decorative arts and design, graphic arts, ethnology, installations, painting, photography, sculpture, mixed techniques, video films. This collection encompasses mainly Québec art from all periods—early art to current art.

The collection of works for loan was established by the Ministère des Affaires culturelles in 1982 to stimulate artistic creation in Québec through acquisition of works by young artists. This collection, which contains the same type of works as the permanent collection, is intended for show primarily in public buildings of the Gouvernement du Québec and in Québec delegations abroad.

In the fiscal year, the Musée acquired 3 894 works (2006: 3 182), minus value adjustments where applicable, for \$4 632 482 (\$10 828 339 in 2006), i.e. \$1 345 053 by purchase (\$4 199 056 in 2006) and \$3 287 429 by donation (\$6 629 283 in 2006).

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. INVESTMENT INCOME**

	2007	2006
Revenue from unappropriated resources	\$268 578	\$211 595
Revenue from resources held as allocations	79 598	58 758
Total investment income earned in the fiscal year	348 176	270 353
Minus deferred amounts appropriated to capital assets and acquisition of works of art for the Musée collection	(79 598)	(58 758)
Total investment income posted to revenues	<u>\$268 578</u>	<u>\$211 595</u>

10. INTERFUND TRANSFERS

An amount of \$825 036 (2006: \$631 066), representing the portion of the Commercial Activities Fund balance exceeding \$400 000, was transferred to the Operating Fund to finance disbursements to repay Musée borrowings or activities (Note 2).

No amount was transferred from General Fund to Exhibition Fund (2006: \$1 000 000).

11. INVESTMENTS

Investments comprise only common investment fund shares. The latter are administered by an outside investment fund manager under a management agreement and investment policy stipulating the distribution of assets to respect. Investments in common funds have no contractual maturity date.

	2007		2006	
	Book value	Market value	Book value	Market value
SHORT-TERM INVESTMENTS				
Money Market Fund, yield 4.56%	<u>\$103 400</u>	<u>\$102 722</u>	<u>\$254 706</u>	<u>\$253 936</u>
LONG TERM INVESTMENTS				
Bond Fund, yield 4.34%	\$1 482 958	\$1 487 242	\$1 263 132	\$1 253 327
Stock Fund	<u>566 716</u>	<u>703 472</u>	<u>494 798</u>	<u>603 813</u>
	<u>\$2 049 674</u>	<u>\$2 190 714</u>	<u>\$1 757 930</u>	<u>\$1 857 140</u>

Endowment Fund

	2007		2006	
	Book Value	Market Value	Book Value	Market Value
SHORT-TERM INVESTMENTS				
Money Market Fund, yield 4.56%	<u>\$82 931</u>	<u>\$82 304</u>	<u>\$163 233</u>	<u>\$162 756</u>
LONG TERM INVESTMENTS				
Bond Fund, yield 4.34%	\$921 065	\$924 394	\$793 965	\$788 151
Stock Fund	<u>348 875</u>	<u>435 224</u>	<u>309 305</u>	<u>376 325</u>
	<u>\$1 269 940</u>	<u>\$1 359 618</u>	<u>\$1 103 270</u>	<u>\$1 164 476</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. CLAIMS AND ACCRUED INTEREST

	2007	2006
Fondation du Musée national des beaux-arts du Québec, interest-free	\$56 648	\$11 694
Accrued interest	11 248	11 079
Taxes receivable	154 472	198 241
Contribution receivable and other accounts receivable	2 294 149	705 018
	<u>\$2 516 517</u>	<u>\$926 032</u>

13. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**Operating Fund**

Short-term Gouvernement du Québec subsidies receivable are:

	2007	2006
Interest receivable	\$2 145	\$2 681
Repayment of capital on long-term debt next fiscal year	35 460	35 460
Other subsidies receivable	396 600	176 600
	<u>\$434 205</u>	<u>\$214 741</u>

Long-term subsidies receivable are:

	2007	2006
Subsidies receivable for exhibitions	\$141 838	\$177 298
Repayment of capital on long-term debt next fiscal year	(35 460)	(35 460)
	<u>\$106 378</u>	<u>\$141 838</u>

Capital Assets

Short-term Gouvernement du Québec subsidies receivable are:

	2007	2006
Interests receivable	\$597 834	\$683 152
Repayment of capital on long-term debt next fiscal year	3 329 360	2 097 780
	<u>\$3 927 194</u>	<u>\$2 780 932</u>

Long-term subsidies receivable are:

	2007	2006
Subsidies receivable for capital assets and their maintenance	\$23 554 068	\$24 837 143
Repayment of capital on long-term debt next fiscal year	(3 329 360)	(2 097 780)
	<u>\$20 224 708</u>	<u>\$22 739 363</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. CONTRIBUTIONS RECEIVABLE****Operating Fund**

A contribution by a jointly-controlled entity was used to repay a long-term debt contracted for acquiring works of art. It totalled \$2 750 000 (2006: \$2 860 000), \$572 000 (2006: \$1 144 000) of which was cashed this fiscal year. The balance receivable is:

	2007	2006
Contribution receivable, maturing in December 2008	\$1 034 000	\$1 716 000
Encashments maturing within one year	(484 000)	(572 000)
	<u>\$550 000</u>	<u>\$1 144 000</u>

Capital Assets

A director made a contribution to repay a long-term debt contracted for acquiring property. It totalled \$3 900 000, \$893 046 of which was cashed this fiscal year. The balance receivable is:

	2007	2006
Contribution receivable, maturing in August 2008	\$3 006 954	
Encashments maturing within one year	(1 506 954)	
	<u>\$1 500 000</u>	

15. CAPITAL ASSETS FUND – CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Land *	\$5 110 250		\$5 110 250	\$1 210 250
Buildings *	44 274 059	\$23 055 258	21 218 801	22 186 119
Building development	3 728 532	1 990 547	1 737 985	1 746 888
Outside development	235 186	110 443	124 743	146 694
Automotive equipment	144 021	35 049	108 972	118 123
Specialized equipment	1 648 842	681 783	967 059	930 108
Office furniture and equipment	238 603	179 386	59 217	84 774
Computer and office automation equipment	408 119	268 282	139 837	244 109
	\$55 787 612	\$26 320 748	\$29 466 864	\$26 667 065

* The Musée acquired some of these capital assets from the Gouvernement du Québec in 1985 and 1988 for \$1 each. They were posted at the municipal assessment value for these years, i.e. \$1 210 250 for the lands and \$44 274 059 for the buildings. Subsequently, the Government authorized various expansion projects and major repairs.

16. BANK BORROWINGS**Operating Fund**

The Gouvernement du Québec authorized the Musée, by order-in-council, to contract a credit line not to exceed \$1 500 000 for its operations. At March 31, 2007, the Musée had not contracted this borrowing.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**16. BANK BORROWINGS (cont'd)****Capital Assets Fund**

The Gouvernement du Québec authorized the Musée to contract the following bank borrowings for capital assets maintenance:

	2007	2006
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 August 31, 2007.	\$664 000	\$664 000
Credit line payable on demand, authorized by order-in-council for a maximum of \$825 400 bearing interest at the prime rate, contracted February 20, 2006, maturing August 31, 2007.	690 000	20 000
Credit line payable on demand, authorized by order-in-council for a maximum of \$829 400 bearing interest at the prime rate, contracted February 21, 2007, maturing August 31, 2007.	18 000	
	<u>\$1 372 000</u>	<u>\$684 000</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings, including borrowing fees for long-term financing, totalled \$2 501 164 (2006: \$1 663 470). The bank's prime rate was 6% at March 31, 2007 (5.5% at March 31, 2006).

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Salaries and fringe benefits payable	\$322 355	\$186 008
Other expenses payable	1 682 875	1 107 995
	<u>\$2 005 230</u>	<u>\$1 294 003</u>

18. DEFERRED CONTRIBUTIONS**Operating Fund**

	2007	2006
Opening balance	\$213 803	\$176 851
Amount posted to revenue for the fiscal year	(213 803)	(132 595)
Amount received for subsequent fiscal years	255 450	169 547
Closing balance	<u>\$255 450</u>	<u>\$213 803</u>
Breaking down as follows:		
Gouvernement du Québec	\$110 500	\$133 900
Gouvernement du Canada		10 556
Other deferred income	144 950	69 347
	<u>\$255 450</u>	<u>\$213 803</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**18. DEFERRED CONTRIBUTIONS (cont'd)****Capital Assets Fund**

	2007	2006
Opening balance	\$25 408 619	\$26 646 510
Gouvernement du Québec subsidies	814 705	773 910
Amortization of deferred contributions	<u>(1 930 090)</u>	<u>(2 011 801)</u>
Closing balance	<u>\$24 293 234</u>	<u>\$25 408 619</u>

19. LONG-TERM DEBT**Operating Fund**

	2007	2005
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 3.882%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$35 460, maturing in May 2010 *	\$141 838	\$177 298
Note to charge, 5%, repayable in annual instalments of \$500 000, maturing in April 2009	<u>1 460 090</u>	<u>2 079 820</u>
	1 601 928	2 257 118
Instalments due within one year	<u>(495 550)</u>	<u>(555 415)</u>
	<u>\$1 106 378</u>	<u>\$1 701 703</u>

* Principal payments on the borrowing are made annually and interest is paid biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the four fiscal years are:

2008	\$495 550
2009	535 460
2010	535 460
2011	35 458

Capital Assets Fund

	2007	2006
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.261%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$1 430 584, maturing in April 2017 *	\$15 736 432	\$17 167 016
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 5.825%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$164 416 on the principal of the borrowing, maturing in December 2010 *	<u>822 074</u>	<u>986 490</u>
Amounts carried forward	<u>\$16 558 506</u>	<u>\$18 153 506</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**19. LONG-TERM DEBT** (cont'd)**Capital Assets Fund**

	2007	2006
Amounts brought forward	\$16 558 506	\$18 153 506
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.85%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$175 940 , maturing in October 2007 *	1 407 520	1 583 460
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.911%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$245 329 , maturing in July 2020 *	3 434 610	3 679 939
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.692%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$81 511 , maturing in March 2016 *	733 595	815 106
Payable cash, interest-free, repayable in annual instalments of \$1 500 000, maturing in August 2008	3 000 000	
	25 134 231	24 232 011
Instalments due within one year	(4 829 360)	(2 097 780)
	<u>\$20 304 871</u>	<u>\$22 134 231</u>

* Principal payments on these borrowings are made annually and interest is paid biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are:

2008	\$4 829 360
2009	3 421 840
2010	1 921 840
2011	2 086 252
2012	1 757 425

20. CASH FLOWS

Variations in assets and liabilities linked to operations break down as:

Operating Fund

	2007	2006
Claims and accrued interest	\$(58 091)	\$39 934
Subsidies receivable	(232 769)	162 860
Prepaid expenses	(286 416)	(28 496)
Deferred expenses		(798)
Accounts payable and accrued liabilities	684 212	70 025
Provision for vacation time	(31 662)	53 411
Accrued interest	(33 518)	2 599
Client deposits and deferred income	(141 700)	81 307
Deferred contributions – short term	(58 128)	36 952
Provision for sick leave	52 000	(34 444)
Deferred investment income	79 598	58 758
	<u>\$(26 474)</u>	<u>\$442 108</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**20. CASH FLOWS (cont'd)****Commercial Activities Fund**

	2007	2006
Claims and accrued interest	\$174	\$(644)
Inventory	(51 706)	(28 020)
Accounts payable and accrued liabilities	27 015	3 093
	<u>\$(24 517)</u>	<u>\$(25 571)</u>

Exhibition Fund

	2007	2006
Claims and accrued interest	<u>\$(3 614)</u>	

Capital Assets Fund

	2007	2006
Subsidies receivable	\$(1 146 262)	\$(256 518)
Deferred expenses		(35 145)
Accrued interest	(63 745)	(17 842)
	<u>\$(1 210 007)</u>	<u>\$(309 505)</u>

Endowment Fund

	2007	2006
Claims receivable and accrued interest		<u>\$(2)</u>

Total for all funds

	2007	2006
Claims receivable and accrued interest	\$(61 531)	\$39 288
Subsidies receivable	(1 379 031)	(93 658)
Inventory	(51 706)	(28 020)
Prepaid expenses	(286 416)	(28 496)
Deferred expenses		(35 943)
Accounts payable and accrued liabilities	711 227	73 118
Provision for vacation time	(31 662)	53 411
Accrued interest	(97 263)	(15 243)
Client deposits and deferred revenue	(141 700)	81 307
Deferred contributions – short term	(58 128)	36 952
Provision for sick leave	52 000	(34 444)
Deferred investment income	79 598	58 758
	<u>\$(1 264 612)</u>	<u>\$107 030</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**20. CASH FLOWS** (cont'd)

Non-monetary operations from operating, investment and financing activities break down as:

	2007	2006
Contribution receivable for long-term borrowings	\$110 000	\$(2 860 000)
Accrued interest	(3 991)	103 991
Client deposits and deferred income	(6 234)	156 234
Long-term debt	(99 775)	2 599 775
Acquisition of capital assets for interfund payables	(74 304)	(17 205)
Acquisition of capital assets for long-term debt	(3 000 000)	

The Musée's year-end cash and cash equivalents break down as:

	2007	2006
Cash on hand	\$2 095 693	\$2 387 254
Short-term investments	186 331	417 939
Bank overdraft		(1 907)
	<u>\$2 282 024</u>	<u>\$2 803 286</u>

Interest paid in the fiscal year totalled \$1 566 928 (2006: \$1 510 181).

21. 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.

22. FUTURE FRINGE BENEFITS**Pension plans**

Musée staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement total \$260 459 (2006: \$266 356) for the General Fund and \$7 466 (2006: \$7 071) for the Commercial Activities Fund. Its liability towards these Government plans is restricted to its employer contributions.

Provision for vacation time and sick leave

	2007		2006	
	Vacation time	Sick leave	Vacation time	Sick leave
Balance, beginning of year	\$695 872	\$794 976	\$642 461	\$829 420
Annual expenses	517 388	176 800	499 430	117 691
Benefits paid	(549 050)	(124 800)	(446 019)	(152 135)
Balance, end of year	<u>\$664 210</u>	<u>\$846 976</u>	<u>\$695 872</u>	<u>\$794 976</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

23. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES

Current assets and liabilities

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

Investments

The fair value of investments is presented in Note 11. The market value of shares held in common funds is established vis-à-vis the market rate at closing on the date of the balance sheet. Should the value of the underlying assets held in common funds decrease, the value of shares also declines.

Gouvernement du Québec subsidies receivable and contribution receivable

The fair value of Gouvernement du Québec subsidies receivable and contribution receivable cannot be assessed given the absence of a market for this type of financial instrument.

Long-term debt

At March 31, 2007, the fair value of borrowings on a bill from the Financing Fund and the amount payable from the Operating Fund totalling \$23 736 159 (2006: \$26 489 129) was \$25 787 211 (2006: \$28 670 383), given that cash flows were discounted at the market rate for agreements with similar maturity dates and interest rates.

The fair value of the amount payable from the Capital Assets Fund cannot be assessed, given the absence of a market for this type of financial instrument.

Interest rate risks

Interest rate volatility affects the fair value of assets and liabilities (market risks linked to interest rates – fixed) and the Musée's cash and cash equivalents (cash flow risk linked to interest rates– variable).

The Musée manages its investment portfolio according to its cash requirements and to optimize its interest income.

The long-term debt has a fixed interest rate. Consequently, the Musée's risk is minimal.

24. 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 expenses for the fiscal year ending March 31, 2006 and 2007 for these premises totalled \$180 904. Minimum future payments are:

2008	\$180 904
2009	180 904
2010	180 904
2011	180 904
2012	180 904
2013 and thereafter	2 035 170

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

25. CONTINGENCIES

Following the adoption of the Pay Equity Act on November 21, 1996, the Musée must assess its different job categories. On the date the financial statements were prepared, the Musée was unable to assess the amount it might have to pay, if applicable, given that this process was not yet completed. Consequently, no amount was posted in the financial statements.

26. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT for the year ended March 31, 2007

The financial statements of the Musée national des beaux-arts du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

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

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

John R. Porter, C.Q. MSRC
Executive Director

Marc Delaunay
Director, Administration and Communications

Québec, May 18, 2007

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée national des beaux-arts du Québec as at March 31, 2007 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Musée's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, with the exception of the effects disclosed, in the preceding paragraph, of improper recording of expenses related to Musée employees' sick leave and vacation time, these financial statements present fairly, in all material respects, the financial position of the Musée as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 18, 2007

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS
(R.S.Q., c. O-2.1)

OPERATIONS AND ACCUMULATED SURPLUS
for the year ended June 30, 2006

	<u>2006</u>	<u>2005</u>
REVENUE		
Gouvernement du Québec contribution	\$19 709 331	\$19 050 427
Interest	<u>10 435</u>	<u>3 853</u>
	<u>19 719 766</u>	<u>19 054 280</u>
EXPENDITURE		
Income security benefits	17 995 331	17 130 127
Administrative expenses		
Salaries and fringe benefits	977 128	975 577
Travel	109 006	158 585
Rent	96 415	99 048
Professional fees	19 371	16 804
Data processing and maintenance	200 682	275 508
Supplies	26 018	25 018
Telephone and communications	17 342	15 443
Bank and interest fees	27 506	23 228
Depreciation of fixed assets	<u>184 011</u>	<u>166 143</u>
	1 657 479	1 755 354
	<u>19 652 810</u>	<u>18 885 481</u>
EXCESS REVENUE OVER EXPENDITURE	66 956	168 799
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>114 240</u>	<u>(54 559)</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>\$181 196</u></u>	<u><u>\$114 240</u></u>

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

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**BALANCE SHEET**
as at June 30, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash (Note 3)	\$108 714	\$221 611
Terms deposit (Note 4)	720 000	510 000
Accounts receivable (Note 5)	2 949 740	2 597 665
Prepaid expenses	<u>1 684</u>	<u>7 132</u>
	3 780 138	3 336 408
Fixed assets (Note 6)	<u>500 614</u>	<u>678 099</u>
	<u><u>\$4 280 752</u></u>	<u><u>\$4 014 507</u></u>
LIABILITIES		
Current liabilities		
Borrowing (Note 7)	\$561 226	\$734 867
Accounts payable (Note 8)	2 981 433	2 693 444
Owed to Insurance Fund (Note 14)	25 697	21 956
Deferred revenue (Note 9)	<u>531 200</u>	<u>450 000</u>
	4 099 556	3 900 267
ACCUMULATED SURPLUS	<u>181 196</u>	<u>114 240</u>
	<u><u>\$4 280 752</u></u>	<u><u>\$4 014 507</u></u>
COMMITMENTS (Note 10)		
INSURANCE FUND (Note 14)		

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

On behalf of l'Office de la sécurité du revenu
des chasseurs et piégeurs cris,
Willie Iserhoff
Gérald Lemoyne

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS June 30, 2006

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.

In accordance with federal and provincial income tax acts, the Board is not subject to income tax.

2. ACCOUNTING POLICIES

The Board's financial statements were prepared in accordance with Canadian generally accepted accounting principles. As such, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditure during the period. Actual results could differ from these estimates.

Cash flow

The cash flow statement has not been presented, since it contains no additional information that would be useful for understanding cash flows during the year.

Revenues

Unrestricted contributions of the gouvernement du Québec are recognized as revenues when they are received or are receivable, if the amount that is receivable can be reasonably estimated and if its receipt is reasonably assured.

Restricted contributions are recognized as revenues of the year in which the related expenditures are incurred.

The other revenues are recognized as they are earned and when their collection is reasonably assured.

Benefits

Benefits are posted when authorized and when the beneficiary meets the eligibility criteria, should there be any.

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 accumulated surplus.

Capital assets

The fixed assets are accounted at their cost and are depreciated using the straight-line method on their estimated useful life which are:

	<u>Period</u>
Leasehold improvements	7 years
Furniture and equipment	5 years
Computer equipment	3 years

The intangible assets, consisting of software, are accounted at their cost and are depreciated using the straight-line method on their estimated useful life which is five year.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2006**2. ACCOUNTING POLICIES** (cont'd)**Capital assets** (cont'd)

They are subject to a depreciation test when changes in condition suggest that their book value could be uncollectible. Any surplus of the book value over the fair value is allocated to the statements for the period during which the depreciation was established.

Pension plans

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

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. TERM DEPOSITS

The Board has term deposits bearing interest rates from 2.25% to 3.8%, expiring at various dates in July 2006.

5. ACCOUNTS RECEIVABLE

	2006	2005
Ministère de l'Emploi et de la Solidarité sociale subsidy receivable	\$2 947 185	\$2 596 021
Other	2 555	1 644
	<u>\$2 949 740</u>	<u>\$2 597 665</u>

6. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Fixed assets			
Leasehold improvements	\$18 416	\$8 550	\$9 866
Furniture and equipment	1 423		1 423
Computer equipment	5 103	450	4 653
	<u>24 942</u>	<u>9 000</u>	<u>15 942</u>
Intangible assets			
Software	904 650	419 978	484 672
	<u>\$929 592</u>	<u>\$428 978</u>	<u>\$500 614</u>
			<u>\$678 099</u>

The financial year purchases add up to \$6 526.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRISNOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2006**7. BORROWING**

On June 30, 2006, the Board had a credit line of \$2 000 000 guaranteed by the Ministère de l'Emploi et de la Solidarité sociale until December 31, 2008. Amounts used bear interest at the average bank acceptance rate raised of 0.3% which represents 4.73% as at June 30, 2006 (2005: 2.86%).

8. ACCOUNTS PAYABLE

	2006	2005
Income security benefits	\$2 915 272	\$2 569 265
Ministère de l'Emploi et de la Solidarité sociale	1 404	47 943
Suppliers	21 378	32 668
Salaries and fringe benefits	43 379	43 568
	<u>\$2 981 433</u>	<u>\$2 693 444</u>

9. DEFERRED REVENUES

Deferred revenues represents the contribution of the gouvernement du Québec pertaining to administrative expenditures which are allocated to 2006-2007.

10. COMMITMENTS

The Board is committed, under contracts for professional services, to maintain its computer system until 2008.

The Board is also committed under long-term leases for administrative offices expiring on various dates until 2010. In some cases, these leases include a five-year renewal option.

Minimum future payments on these commitments are as follows:

2007	\$184 037
2008	140 190
2009	43 881
2010	32 910
	<u>\$401 018</u>

11. PENSION PLANS

Board staff members participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These are multiemployer defined benefit plans and include guaranteed payments upon retirement and death.

The Board's contributions charged to year-end statement amount to \$35 171 (2005: \$28 410). The Board's liability towards these government plans is restricted to its contributions as an employer.

12. FINANCIAL INSTRUMENTS

The Board is not exposed to interest-rate risks on its financial liabilities given that interest is paid out of a gouvernement du Québec operating subsidy.

The fair value of short-term financial instruments equals their book value based on their pending maturity date.

13. RELATED PARTY TRANSACTIONS

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

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2006**14. INSURANCE FUND**

Complementary Agreement No. 15 amending Section 30 of the James Bay and Northern Quebec Agreement came into effect on July 1, 2002. An insurance fund administered by the Board was created to finance sick leave and leave related to disasters. The Fund is financed by equal contributions from the gouvernement du Québec and program beneficiaries. The Insurance Fund's assets are separate from the assets of the Board, which is responsible for reporting on Fund activities.

The Insurance Fund's results, the accumulated surplus and financial position for the year ending June 30, 2006 is as follows:

Operations and accumulated surplus	<u>2006</u>	<u>2005</u>
Revenue		
Gouvernement du Québec contribution	\$193 010	\$184 416
Beneficiaries' contribution	193 010	184 416
Interest	38 425	17 521
	<u>424 445</u>	<u>386 353</u>
Expenditure		
Sick leave and disaster benefits	288 561	263 426
Bank fees	90	90
	<u>288 651</u>	<u>263 516</u>
Excess revenue over expenditure	135 794	122 837
Accumulated surplus, beginning of year	<u>280 017</u>	<u>157 180</u>
Accumulated surplus, end of year	<u>\$415 811</u>	<u>\$280 017</u>
Balance sheet		
Current assets		
Cash	\$1 439 323	\$1 031 474
Board account receivable	25 697	21 956
Gouvernement du Québec account receivable	25 697	21 956
	<u>\$1 490 717</u>	<u>\$1 075 386</u>
Liability		
Sick leave payable	\$1 074 906	\$795 369
Accumulated surplus	<u>415 811</u>	<u>280 017</u>
	<u>\$1 490 717</u>	<u>\$1 075 386</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**MANAGEMENT'S REPORT**

The financial statements of the Cree Hunters and Trappers Income Security Board were drawn-up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involves the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in other sections of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The members of the Board must supervise the way management carries out its responsibilities regarding financial information and it has approved financial statements.

The Auditor General of Québec has audited the financial statements of the Board in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of this audit and his opinion. The Auditor General can, without limitations, discuss any element regarding audit.

On behalf of l'Office de la sécurité
du revenu des chasseurs et piégeurs cris,

Serge Larivière
Director-general

Régent Brind'Amour
Director of Administrative Services

Québec, October 20, 2006

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Cree Hunters and Trappers Income Security Board as at June 30, 2006 and the statement of operations and accumulated surplus for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,
Renaud Lachance, CA

Québec, October 20, 2006

OFFICE DES PROFESSIONS DU QUÉBEC
(R.S.Q., c. C-26)

STATEMENT OF ACTIVITIES AND CUMULATED DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Contributions from members of professional corporations	\$5 468 329	\$6 295 404
Interest	83 488	56 344
Fees for managing the Ordre des sages-femmes du Québec Fund (Note 7)	<u>2 295</u>	<u>3 752</u>
	<u>5 554 112</u>	<u>6 355 500</u>
EXPENSES		
Administrative expenses		
Salaries and fringe benefits	3 228 567	3 235 595
Transportation and communications	149 543	159 698
Professional and administrative services	494 775	539 934
Rent and maintenance	331 322	349 318
Materials and supplies	54 329	63 146
Interest on advances from the Consolidated Revenue Fund	4 406	
Amortization capital assets	90 893	77 070
Amortization of intangible assets	<u>78 747</u>	<u>52 477</u>
	4 432 582	4 477 238
Fees and reimbursements (Note 3)	<u>2 250 285</u>	<u>2 030 780</u>
	<u>6 682 867</u>	<u>6 508 018</u>
EXCESS EXPENSES OVER REVENUES	(1 128 755)	(152 518)
SURPLUS (CUMULATED DEFICIT), BEGINNING OF YEAR	<u>(122 103)</u>	<u>30 415</u>
CUMULATED DEFICIT, END OF YEAR	<u><u>\$(1 250 858)</u></u>	<u><u>\$(122 103)</u></u>

The notes are an integral part of these financial statements.

OFFICE DES PROFESSIONS DU QUÉBECBALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$79 900	\$381 231
Accounts receivable	<u>198 992</u>	<u>234 213</u>
	278 892	615 444
Capital assets (Note 4)	169 263	183 498
Intangible assets (Note 5)	<u>275 002</u>	<u>325 349</u>
	<u>\$723 157</u>	<u>\$1 124 291</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$339 642	\$233 442
Provision for vacation time (Note 6)	262 342	242 838
Advances to the Consolidated Fund, at 6 %	700 000	
Sum owing to the Ordre des sages-femmes du Québec (Note 7)		<u>165 923</u>
	<u>1 301 984</u>	<u>642 203</u>
Provision for sick leave (Note 6)	<u>672 031</u>	<u>604 191</u>
	1 974 015	1 246 394
CUMULATED DEFICIT	<u>(1 250 858)</u>	<u>(122 103)</u>
	<u>\$723 157</u>	<u>\$1 124 291</u>

The notes are an integral part of these financial statements.

On behalf of the Office des professions du Québec,
Gaétan Lemoyne, President
Christian Reny, Management Consulting Services

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Office des professions du Québec was established by the Professional Code (R.S.Q., c. C-26) to ensure 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

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

The statement of cash flows is not shown as it would not provide any useful additional information on cash flows during the year.

Revenue reporting

Revenue from members' contributions and management fees are posted when the following conditions are fulfilled, if applicable:

- there is convincing evidence that an agreement exists
- the service was dispensed
- the amount can be determined
- recovery is reasonably certain.

Interest income is recorded based on the number of days funds were detained during the fiscal year.

Capital assets

Capital assets are recorded at cost and are depreciated over their estimated service life in accordance with the straight-line method and 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 in accordance with the straight-line method at 20%.

Depreciation of long-term assets

The Office examines the recoverability of its long-term assets when changes in a situation indicate that their book value might not be recoverable. Any surplus book value over unrealized future cash flows is posted to results for the period in which the depreciation was determined.

OFFICE DES PROFESSIONS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the 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: honoraria or compensation of professional order disciplinary board chairs, allocations for presence and reimbursement of reasonable costs incurred by the directors appointed by the Office to the Bureaux des ordres professionnels to represent the public. Honoraria and compensation amounts are set by the Government.

These expenditures break down as:

	2007	2006
Chairs of disciplinary boards of professional corporations	\$1 903 746	\$1 672 370
Office-appointed directors	346 539	358 410
	<u>\$2 250 285</u>	<u>\$2 030 780</u>

4. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Data processing equipment	\$570 064	\$(447 185)	\$122 879
Telephone equipment	29 307	(29 307)	14
Furniture	129 599	(108 164)	21 435
Leasehold improvements	98 337	(73 388)	24 949
	<u>\$827 307</u>	<u>\$(658 044)</u>	<u>\$169 263</u>
			<u>\$183 498</u>

Acquisitions for the year totalled \$69 024 (2006: \$148 200).

5. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Cost of computer systems development	\$636 118	\$(361 116)	\$275 002
	<u>\$636 118</u>	<u>\$(361 116)</u>	<u>\$275 002</u>
			<u>\$325 349</u>

Acquisitions for the year totalled \$28 400 (2006: \$158 094).

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

6. FUTURE FRINGE BENEFITS**Pension plans**

Office staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These inter-enterprise plans are defined-benefit plans and include guaranteed payments on retirement and death.

The Office's contributions charged to the year-end statement totalled \$145 215 (2006: \$250 217). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	Sick leave		Vacation time	
	2007	2006	2007	2006
Balance, beginning of year	\$604 191	\$433 674	\$242 838	\$209 255
Annual expenses	136 283	141 694	254 261	271 674
Benefits paid	(68 443)	28 823	(234 757)	(238 091)
Balance, end of year	<u>\$672 031</u>	<u>\$604 191</u>	<u>\$262 342</u>	<u>\$242 838</u>

7. 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 not yet carried out 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 determined 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.

As stipulated in the Act respecting midwives, the Fund was terminated and its balance paid to the Ordre for March 31, 2007.

Changes in the Fund:

	2007	2006
Balance, beginning of year	\$165 923	\$190 859
Payments to the Ordre des sages-femmes du Québec	(167 563)	(25 138)
Interest generated	3 935	3 954
Management fees paid to the Office	<u>(2 295)</u>	<u>(3 752)</u>
Balance, end of year	<u></u>	<u>\$165 923</u>

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2007

7. SUM OWING TO THE ORDRE DES SAGES-FEMMES DU QUÉBEC (cont'd)

The sum owing breaks down as:

	<u>2007</u>	<u>2006</u>
Sum owing		\$165 923
Minus: Portion payable in the coming fiscal year		<u>165 923</u>
	<u> </u>	<u> </u>

8. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Office is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Office did not 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.

9. FINANCIAL INSTRUMENTS

The fair value used for short-term assets and liabilities is a reasonable estimate, given that they mature in the short term.

Credit risk

The Office's exposure to credit risk corresponds to the book value of financial assets. The credit risk related to these is not concentrated in one sector activity. The Office evaluates these assets regularly and posts a provision for losses when accounts are deemed impossible to collect.

OFFICE DES PROFESSIONS DU QUÉBEC**MANAGEMENT'S REPORT**

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

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

The 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Gaétan Lemoyne
President

Christian Rény
Director, Management Consulting Services

Québec, May 15, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Office des professions du Québec as at March 31, 2007 and the statement of activities and cumulated deficit for the year then ended. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 15, 2007

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE
(R.S.Q., c. O-5.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Ministère des Relations internationales subsidy	\$2 000 000	\$2 000 000
Emploi-Québec subsidy	322 187	325 000
Secrétariat à la Jeunesse subsidy	9 926	
Interest on bank deposits	46 847	29 188
Other revenue	<u>9 885</u>	<u>13 022</u>
	<u>2 388 845</u>	<u>2 367 210</u>
EXPENSES (Note 3)		
Programs and development	1 814 628	1 884 453
Communications	202 781	219 655
Administration	<u>310 590</u>	<u>290 474</u>
	<u>2 327 999</u>	<u>2 394 582</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	60 846	(27 372)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>263 988</u>	<u>291 360</u>
CUMULATED SURPLUS, END OF YEAR	<u>\$324 834</u>	<u>\$263 988</u>

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$28 849	\$35 816
Term deposit, 4.00% maturing in June 2007	300 000	275 000
Accounts receivable (Note 4)	174 364	10 753
	<u>503 213</u>	<u>321 569</u>
Capital assets (Note 5)	53 069	68 000
	<u>\$556 282</u>	<u>\$389 569</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$201 374	\$125 581
Deferred subsidy – Secrétariat à la jeunesse	30 074	
	<u>231 448</u>	<u>125 581</u>
CUMULATED SURPLUS	324 834	263 988
	<u>\$556 282</u>	<u>\$389 569</u>
COMMITMENTS (Note 9)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Alfred Pilon, President and Chief Executive Officer
 Catherine Gosselin, President

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSESTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Excess (deficiency) of expenses over revenues	\$60 846	\$(27 372)
Items not affecting liquid assets		
Amortization of capital assets	<u>23 379</u>	<u>34 911</u>
	84 225	7 539
Change in non-cash items related to operations		
Accounts receivable	(133 537)	79 609
Prepaid expenses		1 700
Accounts payable and accrued liabilities	<u>75 793</u>	<u>(100 316)</u>
	(57 744)	(19 007)
Cash flows from operating activities	<u>26 481</u>	<u>(11 468)</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of capital assets	<u>(8 448)</u>	<u>(8 907)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18 033	(20 375)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>310 816</u>	<u>331 191</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)	<u><u>\$328 849</u></u>	<u><u>\$310 816</u></u>
Item not affecting cash flows related to operating activities		
Deferred subsidy included in accounts receivable	\$30 074	

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

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) to develop relations between Québec youth and other American peoples, to increase individual and group exchanges between them and to promote the development of cooperative networks

Under the Québec Taxation Act and the Canadian Income Tax Act, the Office is not subject to income tax.

2. ACCOUNTING POLICIES

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

Deferred subsidies

Subsidies for expenses related to projects that have not yet been carried out are posted to deferred subsidies and transferred to results the fiscal year in which the corresponding expenses are incurred.

Capital assets

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

Office furniture and equipment	20%
Leasehold improvements	10%
Data processing equipment	33 1/3%

Program expenses

Program expenses are posted when authorized for the fiscal year and when beneficiaries have met the eligibility criteria, where applicable.

Cash and cash equivalents

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

Pension plans

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

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. CHARGES

	2007		2006
Programs			
Regular projects	\$876 943		\$954 622
Salaries and fringe benefits	483 576		442 962
Participation allowances - Emploi-Québec	272 187		274 612
Special projects	67 037		58 103
	<u>1 699 743</u>		<u>1 730 299</u>
Development			
Mission abroad	12 841		45 164
Cost of travel within Québec	28 976		27 115
Development in Mexico	57 424		60 686
Other costs	15 644		21 189
	<u>114 885</u>		<u>154 154</u>
	1 814 628	78%	1 884 453 79%
Communications			
Salaries and fringe benefits	173 653		177 244
Promotional material	23 404		29 443
Advertising	2 241		9 741
Subscriptions and publications	3 483		3 227
	<u>202 781</u>	9%	<u>219 655</u> 9%
Administration			
Salaries and fringe benefits	158 240		131 395
Rent	68 019		67 341
Telecommunications	25 505		18 054
Operating costs	23 248		24 885
Mail and courier services	3 642		5 148
Insurance	7 494		7 324
Board of administration expenses	1 063		1 416
Amortization of capital assets	23 379		34 911
	<u>310 590</u>	13%	<u>290 474</u> 12%
	<u>\$2 327 999</u>		<u>\$2 394 582</u>

4. ACCOUNTS RECEIVABLE

	2007	2006
Emploi-Québec	\$94 687	
Secrétariat à la jeunesse	40 000	
Sales tax	730	\$1 423
Interest receivable	28 224	2 038
Office franco-québécois pour la jeunesse	3 664	
Office Québec-Wallonie Bruxelles pour la jeunesse	1 050	
Other	6 009	7 292
	<u>\$174 364</u>	<u>\$10 753</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. ACCOUNTS RECEIVABLE (cont'd)**

In keeping with memorandum of agreement 2007-2010 signed by the Ministère de l'Emploi et de la Solidarité sociale (Emploi-Québec) and the Office, financial contributions receivable for coming fiscal years break down as:

2008	\$325 000
2009	325 000
2010	<u>325 000</u>
	<u>\$975 000</u>

In keeping with the subsidy agreement signed by the Conseil exécutif (Secrétariat à la jeunesse) and the Office Québec Wallonie Bruxelles pour la jeunesse, the financial contributions allotted to the Office for the following fiscal years for the Synergie Entreprise program's entrepreneurial culture awareness component, break down as:

2008	\$40 000
2009	<u>40 000</u>
	<u>\$80 000</u>

5. CAPITAL ASSETS

	2007			2006
	Cost	Cumulated amortization	Net	Net
Office furniture and equipment	\$79 307	\$77 921	\$1 386	\$3 936
Leasehold improvements	118 081	79 475	38 606	50 414
Data processing equipment	<u>98 232</u>	<u>85 155</u>	<u>13 077</u>	<u>13 650</u>
	<u>\$295 620</u>	<u>\$242 551</u>	<u>\$53 069</u>	<u>\$68 000</u>

6. BANK OVERDRAFT

At March 31, 2007, 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 AND ACCRUED LIABILITIES

	2007	2006
Suppliers	\$18 278	\$43 553
Office franco-québécois pour la jeunesse	103 843	
Salaries and fringe benefits	<u>79 253</u>	<u>82 028</u>
	<u>\$201 374</u>	<u>\$125 581</u>

8. FINANCIAL INSTRUMENTS

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

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. COMMITMENTS**

At March 31, 2007, the Office agreed to pay contributions of \$98 700 (2006: \$233 800) for regular projects carried out in fiscal 2008.

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, 2007 total \$68 019. Minimum future payments are:

2008	\$70 000
2009	72 500
2010	72 500
2011	36 250
	<u>\$251 250</u>

10. CASH AND CASH EQUIVALENTS

	<u>2007</u>	<u>2006</u>
Cash on hand	\$28 849	\$35 816
Term deposit	<u>300 000</u>	<u>275 000</u>
	<u>\$328 849</u>	<u>\$310 816</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 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**

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

The Office's contributions charged to the year-end statement totalled \$27 927 (2006: \$24 918). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

The Office reimburses days not used at March 31 every year in keeping with its regulation on the conditions of nomination, payment standards and pay scales. The fiscal year's expenses totalled \$20 675 (2006: \$18 926).

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**MANAGEMENT'S REPORT**

The financial statements of the Office Québec-Amériques pour la jeunesse were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies and methods that comply with Canadian generally accepted accounting principles.

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

The 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 Canadian generally accepted auditing standards. 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.

Alfred Pilon
President and Chief Executive Officer

Québec, June 4, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of the Office Québec-Amériques pour la jeunesse as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2007 and the results of the insurance funds' operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 4, 2007

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC
(R.S.Q., c. R-5)

STATEMENT OF PROGRAM COSTS AND FINANCING
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
PROGRAM COSTS (Note 3)		
Medical services (Note 16)	3 571 571	3 410 161
Prescription drugs and pharmaceutical services (Notes 4 and 16)	2 638 305	2 423 400
Hospital services (Note 5)	151 849	140 917
Technical aids	127 667	109 337
Dental services (Note 16)	103 821	104 795
Home-care services	45 715	42 080
Optometry services (Note 16)	35 604	35 448
Other (Note 6)	10 230	11 291
	<u>6 684 762</u>	<u>6 277 429</u>
Amounts recovered from liable third parties and foreign nationals for hospital care	7 251	5 996
	<u>6 677 511</u>	<u>6 271 433</u>
Administrative expenses (Note 7)	<u>137 357</u>	<u>131 768</u>
	<u><u>6 814 868</u></u>	<u><u>6 403 201</u></u>
 FINANCING SOURCES		
Health Services Fund	3 706 630	3 542 714
Prescription Drug Insurance Fund	2 672 243	2 456 118
Gouvernement du Québec	309 521	284 754
Commission de la santé et de la sécurité du travail	85 067	77 891
Reciprocal agreements with other provinces (Note 5)	32 923	32 707
Other	8 484	9 017
	<u><u>6 814 868</u></u>	<u><u>6 403 201</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, 2007
(in thousands of dollars)

	2007	2006
ASSETS		
Current assets (Note 8)		
Cash		16 333
Contributions receivable		
Health Services Fund	234 702	55 385
Prescription Drug Insurance Fund	136 304	180 068
Fees to be recovered (Note 9)	137 139	141 338
Other receivables	16 369	13 218
	<u>524 514</u>	<u>406 342</u>
Capital assets (Note 10)	24 377	23 778
Intangible assets (Note 11)	41 790	18 895
	<u>590 681</u>	<u>449 015</u>
LIABILITIES		
Current liabilities (Note 8)		
Outstanding bank papers	32 576	30 191
Services payable	492 513	362 260
Other accounts payable and accrued liabilities	27 379	27 292
Borrowing on note from the Gouvernement du Québec's Financing Fund (Note 12)	7 192	
	<u>559 660</u>	<u>419 743</u>
Provision for sick leave and vacation time (Note 14)	31 021	29 272
	<u>590 681</u>	<u>449 015</u>
COMMITMENTS (Note 15)		
CONTINGENCIES (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 THE FINANCIAL STATEMENTS**

March 31, 2007

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person under 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) administer 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 and parts of Ministère de la Santé et des Services sociaux programs, including:

- remuneration of resident physicians;
- payment of hospital services rendered outside Québec;
- tax exemption for home care services;
- collection of amounts recoverable from liable third parties, residents of other provinces and foreign nationals for hospital care.

The 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 is financed by the Health Services Fund.

The Prescription Drug Insurance Fund finances the cost of prescription drugs and pharmaceutical services provided to:

- persons aged 65 and over;
- employment-assistance recipients
- participants, other than those listed above, not covered by a group insurance plan or without fringe benefits.

Finally, the Gouvernement du Québec finances parts of programs entrusted to it by the Ministère de la Santé et des Services sociaux.

Under section 4 of its incorporating legislation, the Régie is an agent of the State and, as such, is not subject to Québec or Canadian income tax.

2. ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Régie's cash flows during the year. However, the most relevant information is disclosed in the notes to the financial statements.

Capital assets

Capital assets are recorded at acquisition cost.

The straight-line amortization method is used, taking into account the residual value of these capital assets, where applicable. Their service life is:

Head office building	40 years
Leasehold improvements	5 years
Building renovations	10 years
Office furniture and equipment and automotive equipment	5 years
Computer and office automation equipment	3 years

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

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

Intangible assets are recorded at acquisition cost.

The development of computer systems includes the cost of labour, professional services and 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 is:

Computer development	5 years
Computer development – Québec health file	10 years
Software	3 years

Pension plans

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

3. PROGRAM COSTS

The cost of goods and services, by program, breaks down as:

	2007	2006
Health insurance plan	3 712 267	3 541 719
Public basic prescription drug insurance plan (Note 4)	2 635 656	2 419 495
Other	329 588	310 219
	<u>6 677 511</u>	<u>6 271 433</u>

4. PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES

	2007	2006
Public prescription drug insurance plan		
Persons aged 65 and over	1 509 623	1 377 326
Employment-assistance recipients	580 492	543 930
Participants	545 541	498 239
	<u>2 635 656</u>	<u>2 419 495</u>
Persons eligible for special programs	2 649	3 905
	<u>2 638 305</u>	<u>2 423 400</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 March 31, 2007
 (in thousands of dollars)

5. HOSPITAL SERVICES

	<u>2007</u>	<u>2006</u>
Hospital services provided to Québec residents outside the province	118 926	108 210
Hospital services provided in Québec to residents of other provinces	<u>32 923</u>	<u>32 707</u>
	<u><u>151 849</u></u>	<u><u>140 917</u></u>

6. OTHER

	<u>2007</u>	<u>2006</u>
Research grants	9 352	9 720
Assistance to persons infected with the hepatitis C virus	<u>878</u>	<u>1 571</u>
	<u><u>10 230</u></u>	<u><u>11 291</u></u>

7. ADMINISTRATIVE EXPENSES

	<u>2007</u>	<u>2006</u>
Salaries and fringe benefits	91 937	85 474
Amortization of capital assets	5 210	5 995
Amortization of intangible assets	9 781	6 887
Office space, equipment and furniture	15 028	14 085
Information, telephone and messenger services	7 099	8 027
Interactive communications network	4 359	4 625
Professional and other services	2 114	3 986
Materials and supplies	1 684	2 155
Interest and financial expenses	<u>145</u>	<u>534</u>
	<u><u>137 357</u></u>	<u><u>131 768</u></u>

A portion of the administrative expenses of \$36.6 M (2006: \$36.6 M) is assumed by the Prescription Drug Insurance Fund.

8. FINANCIAL INSTRUMENTS

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

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

9. COSTS TO BE RECOVERED

	2007	2006
Gouvernement du Québec	80 436	106 133
Commission de la santé et de la sécurité du travail	45 948	26 754
Hospital services owing from other provinces	10 755	8 451
	<u>137 139</u>	<u>141 338</u>

10. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Land	1 000		1 000	1 000
Head office building	17 537	10 437	7 100	7 400
Building renovations	14 089	2 905	11 184	9 368
Leasehold improvements	2 318	2 055	263	188
Office furniture and equipment and automotive equipment	2 790	1 739	1 051	1 126
Computer and office automation equipment	19 345	15 566	3 779	4 696
	<u>57 079</u>	<u>32 702</u>	<u>24 377</u>	<u>23 778</u>

Expenditures incurred for the fiscal year's acquisitions totalled \$5.8 million (2006: \$6.5 million).

11. INTANGIBLE ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Computer development	50 366	24 925	25 441	17 404
Computer development – Québec health file	16 182	807	15 375	
Software	4 250	3 276	974	1 491
	<u>70 798</u>	<u>29 008</u>	<u>41 790</u>	<u>18 895</u>

Expenditures incurred for the fiscal year's acquisitions totalled \$32.7 million (2006: \$8.1 million).

12. BORROWING ON NOTE FROM THE GOUVERNEMENT DU QUÉBEC'S FINANCING FUND

	2007	2006
Borrowing on note, maximum \$131 M, fixed rate of 4.4%, maturing September 25, 2007		
	<u>7 192</u>	
Cash flows		
Interest paid		

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

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 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) or Pension Plan of Management Personnel (PPMP). These are inter-employer defined benefit plans that include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement total \$3.9 million (2006: \$3.6 million) for its employees and are included in administrative expenses. Contributions for salaried health care professionals tot al \$4.1 million (2006: \$4.3 million) and are included in the cost of programs under the items "medical services," "dental services" and "optometry services." The Régie's liability towards these Government plans is restricted to its employer contributions.

Sick leave and vacation time

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	29 272	29 270
Net increase (decrease) due to employee arrivals and departures	1 250	(572)
Expenses	8 966	8 192
Utilization	<u>(8 467)</u>	<u>(7 618)</u>
Balance, end of year	<u>31 021</u>	<u>29 272</u>

15. COMMITMENTS

At March 31, 2007, the minimum contractual commitments for the acquisition of goods and services under procurement contracts and the rental of office space are:

2008	34 946
2009	7 476
2010	6 233
2011	5 633
2012	4 458
2013 and 2014	<u>4 112</u>
	<u>62 858</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

16. CONTINGENCIES

Medical, dental and optometry services and prescription drugs and pharmaceutical services

Agreements with the following associations representing health professionals have expired.

	<u>Expiry date</u>
Association des chirurgiens dentistes du Québec	June 30, 2003
Quebec Association of Optometrists	June 30, 2003
Association des spécialistes en chirurgie buccale et maxillo-faciale du Québec	March 31, 2004

In fall 2006, the Conseil du trésor authorized the Ministère de la Santé et des Services sociaux to begin negotiations with the first two associations. On May 1, 2007, the Association des spécialistes en chirurgie buccale et maxillo-faciale submitted a document to renew the framework agreement. A brief is being prepared to have the Conseil du trésor authorize the negotiation mandate. No provisions were posted to liabilities for these agreements for rates changes that might occur on renewal.

The Association québécoise des pharmaciens propriétaires, Fédération des médecins omnipraticiens du Québec and Fédération des médecins spécialistes du Québec signed agreements with the Government this fiscal year, which set rate increases and other terms and conditions for the professionals they represent until March 31, 2010. The following provisions were posted to liabilities for fiscal 2006-2007:

- Under the agreement approved in February 2007, a lump sum estimated at \$14.2 million, the equivalent of a 2% rate increase for services rendered by pharmacist-owners between April 1, 2006 and March 31, 2007;
- Under the framework agreement dated June 14, 2006 involving the Fédération des médecins omnipraticiens du Québec, a provision totalling \$26.3 million for the payment of lump sum amounts for services rendered between April 1 and September 30, 2006 and the first 3 months of annual lump sum amounts for vulnerable clientele paid to physicians for the period January 1 to December 31, 2007;
- Under the agreement in principle signed on December 21, 2006 with the Fédération des médecins spécialistes du Québec, an estimated amount payable of \$45.1 million primarily to cover the overall 2% increase in these physicians' remuneration from April 1, 2006 to March 31, 2007.

The 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 annual budget to be paid to members for their services. The agreements specify that should this budget not be used, the amounts made available will be allocated as decided by the parties, according to the terms and conditions they determine. Should the budget be exceeded, the amounts must be repaid in the subsequent period.

Since the agreement with the Association des spécialistes en chirurgie buccale et maxillo-faciale has not yet been renewed, the budgets have not been determined and the Régie cannot assess whether it will be under, on or over budget.

For agreements with the federations representing general practitioners and specialized physicians, the final compilation of real costs compared to provisions for the period April 1, 2006 to March 31, 2007, can be completed only in summer 2007. Consequently, the Régie can not assess whether it will be under, on or over budget.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program to provide reasonable assurance that assets are safeguarded and that accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Régie's financial position and operations.

The Board of Directors examines and approves the financial statements and oversees the manner in which management performs its financial reporting duties. It is assisted by the auditing committee.

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

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

Pierre Roy
President and Chief Executive Officer

Daniel Cloutier, CA
Director, Budget and
Financial Resources

Québec, June 1, 2007

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Régie de l'assurance maladie du Québec as at March 31, 2007 and the statement of program costs and financing for the year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Régie as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, June 1, 2007

RÉGIE DE L'ÉNERGIE
(R.S.Q., c. R-6.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Royalties - salaries and operations (Note 8)	\$8 672 201	\$8 009 954
Transfer of deferred contribution – capital assets (Note 7)	68 776	86 211
Interest income	98 120	54 387
Fees and other	<u>8 496</u>	<u>8 137</u>
	<u>8 847 593</u>	<u>8 158 689</u>
EXPENSES		
Salaries and fringe benefits	6 518 255	6 110 053
Professional and administrative services	248 320	190 184
Rent to Société immobilière du Québec	1 155 540	1 145 924
Other operating expenses	678 897	659 601
Amortization of capital assets	68 776	79 536
Amortization of capital assets held under capital lease contracts	72 121	72 121
Interest on long-term debt	42 659	53 418
Reimbursement of expenses - hearing	<u>5 157</u>	<u>(36 000)</u>
	<u>8 789 725</u>	<u>8 274 837</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	57 868	(116 148)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>653 498</u>	<u>769 646</u>
CUMULATED SURPLUS, END OF YEAR	<u><u>\$711 366</u></u>	<u><u>\$653 498</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIEBALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$2 480 322	\$2 783 127
Accounts receivable (Note 8)	82 382	21 327
Prepaid expenses	40 483	39 581
	<u>2 603 187</u>	<u>2 844 035</u>
Capital assets (Note 3)	<u>641 134</u>	<u>623 489</u>
	<u><u>\$3 244 321</u></u>	<u><u>\$3 467 524</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$1 766 590	\$1 534 287
Short-term provision for sick leave (Note 5)	70 063	63 981
Current portion of long-term debt (Note 6)	86 055	86 055
	<u>1 836 653</u>	<u>1 684 323</u>
Long-term provision for sick leave (Note 5)	194 278	201 463
Long-term debt owing to Société immobilière du Québec (Note 6)		507 440
Deferred contribution – capital assets (Note 7)	<u>502 024</u>	<u>420 800</u>
	2 532 955	2 814 026
CUMULATED SURPLUS	<u>711 366</u>	<u>653 498</u>
	<u><u>\$3 244 321</u></u>	<u><u>\$3 467 524</u></u>

The notes are an integral part of these financial statements.

On behalf of the Régie,
Jean-Paul Théorêt, President

RÉGIE DE L'ÉNERGIESTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Receipts - royalties - salaries and operations	\$8 603 782	\$8 008 788
Receipts – royalties from capital assets	150 000	180 000
Receipts - royalties and other revenue	16 675	(537)
Disbursements - salaries and fringe benefits	(6 375 370)	(6 050 460)
Disbursements – operations	(2 000 501)	(2 182 023)
Interest received	97 305	51 606
Interest paid	<u>(42 659)</u>	<u>(53 418)</u>
Cash flows linked to operating activities	<u>449 232</u>	<u>(46 044)</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of capital assets	<u>(158 542)</u>	<u>(36 605)</u>
FINANCING ACTIVITIES		
Cash flows used for financing activities		
Reimbursements of long-term debt	<u>(593 495)</u>	<u>(86 611)</u>
DECREASE IN CASH	<u>(302 805)</u>	<u>(169 260)</u>
CASH, BEGINNING OF YEAR	<u>2 783 127</u>	<u>2 952 387</u>
CASH, END OF YEAR	<u><u>\$2 480 322</u></u>	<u><u>\$2 783 127</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS March 31, 2007

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. To varying degrees, its authority and responsibilities cover all energy markets in Québec, i.e. electricity, natural gas, petroleum products and steam, and include activities related to supply, transport, distribution 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

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

Capital assets

Capital assets are recorded at cost and depreciated in accordance with the straight-line method over their estimated service lives:

Computer system and data processing equipment	3 years
Furniture and equipment	5 years
Leasehold improvements	5 to 15 years

The Régie regularly examines its capital assets' book value, comparing it with the unrealized future cash flows expected to be generated by them. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Contribution reporting

Contributions for budgeted capital asset acquisitions are deferred and posted to revenue over the same term as the depreciation of the capital assets they finance. Deferred contributions corresponding to cancelled capital asset acquisitions are posted to revenue when they are cancelled by the Régie.

Contributions for budgeted operating expenses and salaries approved by the Government are posted to revenue the year for which they are approved.

Pension plans

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

RÉGIE DE L'ÉNERGIENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. CAPITAL ASSETS**

	2007		2006
	Cost	Accumulated depreciation	Net
Computer system and data processing equipment	\$900 136	\$748 444	\$151 692
Furniture and equipment	329 436	304 494	24 942
Leasehold improvements	218 854	117 254	101 600
	<u>1 448 426</u>	<u>1 170 192</u>	<u>278 234</u>
Capital assets held under capital leases			
Leasehold improvements	1 029 352	666 452	362 900
	<u>\$2 477 778</u>	<u>\$1 836 644</u>	<u>\$641 134</u>
			<u>\$623 489</u>

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	\$285 116	\$196 801
Salaries and fringe benefits	950 643	872 454
Provision for vacation time	<u>530 831</u>	<u>465 032</u>
	<u>\$1 766 590</u>	<u>\$1 534 287</u>

5. FUTURE FRINGE BENEFITS**Provision for sick leave**

	2007	2006
Balance, beginning of year	\$265 444	\$258 313
Expenses	149 728	185 074
Benefits paid	<u>(150 831)</u>	<u>(177 943)</u>
Balance, end of year	264 341	265 444
Short-term provision	<u>(70 063)</u>	<u>(63 981)</u>
Long-term provision	<u>\$194 278</u>	<u>\$201 463</u>

Pension plans

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan for Management Personnel (PPMP). These are defined-benefit plans that include guaranteed payments on retirement and death.

The Régie's contributions charged to year-end expenses, under the entry "Salaries and fringe benefits" totalled \$294 590 (2006: \$280 186). Its liability towards this Government plan is restricted to its employer contributions.

RÉGIE DE L'ÉNERGIE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

6. LONG-TERM DEBT OWING TO SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

	2007	2006
Commitments under capital leases, from 7.8% to 9.3%, maturing en October 2010 et October 2012, totally repaid during the year		\$593 495
Short-term portion of the long-term debt		(86 055)
		<u>\$507 440</u>

7. DEFERRED CONTRIBUTION – INTANGIBLE ASSETS

The item "Deferred contribution – capital assets" represents contributions received in the form of royalties to finance the capital asset acquisitions included in the budget estimates approved by the Government. Discrepancies in the balance of these contributions for the fiscal year are:

	2007	2006
Balance, beginning of year	\$420 800	\$327 011
Royalties – capital assets	150 000	180 000
	<u>570 800</u>	<u>507 011</u>
Amortization of deferred contribution for the year	(68 776)	(79 536)
Intangible asset acquisitions cancelled		(6 675)
	<u>(68 776)</u>	<u>(86 211)</u>
Balance, end of year	<u>\$502 024</u>	<u>\$420 800</u>

Capital assets acquired under capital lease contracts are not included in capital asset acquisitions and, therefore, are not included in the item "Deferred contribution – capital assets".

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Régie collected royalties from Hydro-Québec Distribution in the amount of \$5 907 789 (2006: \$4 760 097) and TransÉnergie in the amount of \$1 118 582 (2006: \$1 828 748), \$73 490 of which was included in accounts receivable at March 31, 2007 (2006: \$0). The Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Régie did not 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 equals their book value, given that they mature in the short term.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2007

BREAKDOWN

	2007				
	Electricity distribution	transport	Natural gas	Petroleum products	Total
REVENUES					
Royalties					
Salaries and operations	\$5 964 792	\$1 085 582	\$1 533 254	\$88 573	\$8 672 201
Transfer of deferred contribution					
– capital assets	28 886	16 506	19 257	4 127	68 776
Interest income	41 269	23 882	27 591	5 378	98 120
Fees and other	5 349	1 318	1 257	572	8 496
	<u>6 040 296</u>	<u>1 127 288</u>	<u>1 581 359</u>	<u>98 650</u>	<u>8 847 593</u>
EXPENSES					
Salaries and fringe benefits	2 741 478	1 586 613	1 832 787	357 377	6 518 255
Professional services	128 674	33 822	39 541	46 283	248 320
Rent to Société immobilière du Québec	486 136	281 210	324 882	63 312	1 155 540
Other operating expenses	283 864	163 400	188 683	42 950	678 897
Amortization of capital assets	28 927	16 740	19 340	3 769	68 776
Amortization of capital assets held under capital lease contracts	30 334	17 554	20 280	3 953	72 121
Interest on the long-term debt	17 942	10 383	11 996	2 338	42 659
Reimbursement of expenses - hearing				5 157	5 157
	<u>3 717 355</u>	<u>2 109 722</u>	<u>2 437 509</u>	<u>525 139</u>	<u>8 789 725</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES					
	2 322 941	(982 434)	(856 150)	(426 489)	57 868
CUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>(744 153)</u>	<u>944 418</u>	<u>(45 944)</u>	<u>499 177</u>	<u>653 498</u>
CUMULATED SURPLUS (DEFICIT), END OF YEAR	<u>\$1 578 788</u>	<u>\$(38 016)</u>	<u>\$(902 094)</u>	<u>\$72 688</u>	<u>\$711 366</u>

This additional information is an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2007

BREAKDOWN

	2006				
	Electricity distribution	transport	Natural gas	Petroleum products	Total
REVENUES					
Royalties					
Salaries and operations	\$4 795 616	\$1 774 028	\$1 397 847	\$42 463	\$8 009 954
Transfer of deferred contribution					
– capital assets	50 184	18 423	15 336	2 268	86 211
Interest income	31 675	11 617	9 675	1 420	54 387
Fees and other	6 632	74	1 422	9	8 137
	<u>4 884 107</u>	<u>1 804 142</u>	<u>1 424 280</u>	<u>46 160</u>	<u>8 158 689</u>
EXPENSES					
Salaries and fringe benefits	3 555 107	1 306 595	1 087 576	160 775	6 110 053
Professional services	130 770	25 776	30 119	3 519	190 184
Rent to Société immobilière du Québec	667 032	244 833	203 928	30 131	1 145 924
Other operating expenses	390 740	127 588	115 812	25 461	659 601
Amortization of capital assets	46 298	16 997	14 149	2 092	79 536
Amortization of capital assets held under capital lease contracts	41 982	15 412	12 830	1 897	72 121
Interest on the long-term debt	31 095	11 415	9 503	1 405	53 418
Reimbursement of expenses - hearing	(36 000)				(36 000)
	<u>4 827 024</u>	<u>1 748 616</u>	<u>1 473 917</u>	<u>225 280</u>	<u>8 274 837</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES					
	57 083	55 526	(49 637)	(179 120)	(116 148)
CUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>(801 236)</u>	<u>888 892</u>	<u>3 693</u>	<u>678 297</u>	<u>769 646</u>
CUMULATED SURPLUS (DEFICIT), END OF YEAR	<u>\$(744 153)</u>	<u>\$944 418</u>	<u>\$(45 944)</u>	<u>\$499 177</u>	<u>\$653 498</u>

This additional information is an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE**MANAGEMENT'S REPORT**

The financial statements of the Régie de l'énergie were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

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

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

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

Jean-Paul Théorêt
President

Montréal, June 20, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie de l'énergie as at March 31, 2007 and the statements of operations and cumulated surplus, cash flows and additional information for the year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Régie as at March 31, 2007 and the results of its operations and cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01) I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, June 20, 2007

RÉGIE DES INSTALLATIONS OLYMPIQUES
(R.S.Q., c. R-7)
OPERATING FUND

STATEMENT OF OPERATIONS
for the year ended October 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Gouvernement du Québec subsidy (Note 4)	19 098	20 000
Sports and tourist facilities and special events		
Entrance fees	4 569	4 756
Rent	1 690	1 279
Advertising	476	447
Parking	2 374	2 312
Souvenirs	594	640
Concession fees	1 001	1 071
Rental of commercial and office spaces	1 689	1 596
Recovery of cost of energy supplied to third parties	3 824	3 925
Work and services billed to third parties	2 104	1 326
Other	177	72
	<u>37 596</u>	<u>37 424</u>
EXPENSES		
Salaries		
Regular employees	8 896	8 602
Casual employees	2 661	2 634
Employee benefits	1 936	1 813
Pension fund contributions	490	434
Employment termination costs	105	151
Service contracts	6 072	5 174
Equipment rental and materials	1 762	1 523
Products for resale	287	331
Energy		
Supplied to third parties	3 186	3 132
Other	4 995	4 735
Water and service tax and insurance	2 254	2 380
Professional fees	2 152	1 648
Rights, commissions and fees	319	309
Financial expenses		
Interest on short-term debt	131	156
Interest on long-term debt	209	366
Stationery, printing, telecommunications	363	340
Advertising	890	854
Doubtful accounts	384	230
Other charges	314	304
Amortization of capital assets	4 081	3 717
Amortization of deferred subsidy	(1 794)	(1 241)
	<u>39 693</u>	<u>37 592</u>
DEFICIENCY OF REVENUES OVER EXPENSES		
BEFORE OTHER ITEM	(2 097)	(168)
Other item		
Costs incurred as a result of the January 18, 1999 incident	375	429
DEFICIENCY OF REVENUES OVER EXPENSES	<u>(2 472)</u>	<u>(597)</u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

OPERATING FUND

STATEMENT OF APPROPRIATED SURPLUSES AND
OPERATING SURPLUS

for the year ended October 31, 2006

(in thousands of dollars)

	<u>New product and market development</u>	<u>Project - new roof</u>
SURPLUS, BEGINNING OF YEAR		2 568
Allocated to reserved surpluses		
Transfer to operating surpluses		(890)
Excess (deficiency) of revenues over expenses		
Balance available for investment		<u>1 678</u>
Opening surplus	152	
Capital assets		
Transfer to operating surpluses	<u>(38)</u>	
Unamortized balance	<u>114</u>	
SURPLUS, END OF YEAR	<u><u>114</u></u>	<u><u>1 678</u></u>

The notes are an integral part of the financial statements.

				2006	2005
Appropriated					
Pool – synchronized swimming	Signs and mosaics	Total	Operations	Total	Total
600		3 168	7 065	10 233	10 786
	414	414	(414)		
	(43)	(933)	933		
			(2 472)	(2 472)	(597)
600	371	2 649	5 112	7 761	10 189
		152		152	196
		(38)	38		
		114	38	152	196
600	371	2 763	5 150	7 913	10 385

RÉGIE DES INSTALLATIONS OLYMPIQUES**OPERATING FUND**
STATEMENT OF CASH FLOWS
 for the year ended October 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	(2 472)	(597)
Non-cash items		
Loss on sale of capital assets		7
Amortization of capital assets	4 081	3 717
Amortization of deferred subsidy	(1 794)	(1 241)
Changes in other assets and liabilities (Note 5)	<u>22 043</u>	<u>(785)</u>
Net cash generated	<u>21 858</u>	<u>1 101</u>
INVESTMENT ACTIVITIES		
Bank acceptances	(3 989)	8 477
Capital assets	(13 938)	(6 805)
Sale of capital assets		<u>75</u>
Net cash generated (used)	<u>(17 927)</u>	<u>1 747</u>
FINANCING ACTIVITIES		
Repayments of borrowings and net cash used	<u>(3 750)</u>	<u>(3 750)</u>
INCREASE (DECREASE) IN CASH	181	(902)
CASH, BEGINNING OF YEAR	<u>380</u>	<u>1 282</u>
CASH, END OF YEAR	<u><u>561</u></u>	<u><u>380</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES**OPERATING FUND****BALANCE SHEET**
as at October 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	561	380
Bank acceptances, interest rate varying between 4.30% and 4.34%	3 989	
Accounts receivable	2 874	2 855
Gouvernement du Québec subsidy receivable		10 000
Inventory	1 061	1 042
Prepaid expenses	462	464
Capital assets (Note 6)	<u>50 144</u>	<u>40 287</u>
	<u>59 091</u>	<u>55 028</u>
LIABILITIES		
Accounts payable and accrued liabilities	10 043	8 918
Owing to the Construction Fund	12	
Deferred grants (Notes 4 and 8)	37 373	28 225
Long-term debt (Note 9)	<u>3 750</u>	<u>7 500</u>
	<u>51 178</u>	<u>44 643</u>
SURPLUS		
Operating surplus	2 763	3 320
Appropriated surplus	<u>5 150</u>	<u>7 065</u>
	<u>7 913</u>	<u>10 385</u>
	<u><u>59 091</u></u>	<u><u>55 028</u></u>

The notes are an integral part of the financial statements.

On behalf of the Board,
Gilles Lépine, Director
Guy Marion, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES

CONSTRUCTION FUND

STATEMENT OF CASH FLOWS
for the year ended October 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INVESTMENT ACTIVITIES		
Construction disbursements and net cash used	<u>(590)</u>	<u>(324)</u>
FINANCING ACTIVITIES		
Contributions from the Special Olympic Fund	50 587	72 237
Net repayment of long-term loans	<u>(50 000)</u>	<u>(72 000)</u>
Net fund receipts	<u>587</u>	<u>237</u>
DECREASE IN CASH	(3)	(87)
CASH, BEGINNING OF YEAR	<u>8</u>	<u>95</u>
CASH, END OF YEAR	<u><u>5</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Installations' construction cost (Note 10)	1 476 950	1 476 541
Expenses to be assumed by the Special Olympic Fund (Note 11)	116 457	116 461
Contributions received (Note 12)	<u>(1 591 388)</u>	<u>(1 540 801)</u>
	2 019	52 201
Other assets		
Advance to the Operating Fund	12	
Cash	<u>5</u>	<u>8</u>
	<u>2 036</u>	<u>52 209</u>
LIABILITIES		
Long-term debt (Note 9)	2 000	52 000
Accounts payable and accrued liabilities	36	205
Accrued interest	<u></u>	<u>4</u>
	<u>2 036</u>	<u>52 209</u>

The notes are an integral part of the financial statements.

On behalf of the Board,
Gilles Lépine, Director
Guy Marion, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS

as at October 31, 2006

(in thousands of dollars)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Régie des installations olympiques (the Régie) is an agent of the Gouvernement du Québec, incorporated by the Act respecting the Régie des installations olympiques adopted by the Gouvernement du Québec.

The Régie owns movable and immovable installations provided for the Games of the 21st Olympiad and was mandated to build, lay out and operate them.

The Régie's revenue is slated primarily for its operations. Excess funds must be used to repay its loans, advances or other obligations related to completion of the Olympic installations. Once these loans and advances are repaid and the other obligations fulfilled, the Olympic installations will become the property of the City of Montréal.

The Régie's activities divide into four main areas: leasing of commercial premises, offices and sports facilities, production of events, tourism and social activities.

A significant portion of the Régie's operating budget is generated by its social activities, including use of the sports facilities by the public and by athletes 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 created by the Act to establish a Special Olympic Fund to collect from the Minister of Revenue a portion of the special tax on tobacco, the proceeds from the sale of the capital 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, the Special Olympic Fund is to be used solely to repay the Régie's loans and related interest charges and costs of the Olympic installations.

3. ACCOUNTING PRINCIPLES

a) The financial statements were prepared in accordance with the following accounting policies:

Accounting estimates

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

Revenue reporting

The Régie uses the deferred method to report subsidies. Subsidies covering expenses for future fiscal years are deferred and posted to revenue in the fiscal year the related expenses are incurred. Unappropriated subsidies are posted to revenue when received or receivable if the amount can be reasonably estimated and it is reasonably certain that it will be received.

Revenue from sports facilities, tourism, events, parking, souvenirs and concession royalties is posted once the goods have been delivered or the services dispensed.

Revenue from commercial premises and office rental is posted when the services are rendered and the rental agreement is signed by the client.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2006
(in thousands of dollars)

3. ACCOUNTING PRINCIPLES (cont'd)

a) The financial statements were prepared in accordance with the following accounting policies: (cont'd)

Revenue reporting (cont'd)

Revenue from energy cost recovery and work and services invoiced to third parties is reported as the services are rendered.

All revenue is posted when received or receivable if the amount can be reasonably estimated and it is reasonably certain that it will be received.

Expenses charged by the Operating 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 tax

Since the Régie is a mandatory corporation of the Gouvernement du Québec, it is not subject to income tax.

Tax

The Régie pays water and service taxes but not the property taxes levied by the City of Montréal.

Claims

The Régie posts claims against third parties only once it has received payment.

Provisions have been made for lawsuits and claims against the Régie, whose outcome is foreseeable.

Inventory

Inventory is valued at cost (determined using the average cost method) or net realizable value, whichever is less.

Amortization

Capital assets acquired for operating purposes are amortized over their estimated service life in accordance with the straight-line method and the following annual rates:

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 capital assets to which it is related.

RÉGIE DES INSTALLATIONS OLYMPIQUES**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at October 31, 2006

(in thousands of dollars)

3. ACCOUNTING PRINCIPLES (cont'd)

- b) The accounting rules used to prepare the financial statements differ significantly from Canadian generally accepted accounting principles for the following.

Installation construction cost

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. The cost of machinery and equipment used during construction has also been posted to installation construction cost.

Disposal of assets

When installations accounted for in the Construction Fund are disposed of, their cost and the corresponding contributions are not written off. The revenue from the sale of capital assets are remitted to the Special Olympic Fund in accordance with the legislation governing the Fund (see Note 10).

Contributions received

It is the Régie's policy not to charge amortization of the construction cost of the Olympic Park and Olympic Village installations, which is reduced by contributions received, to its operating revenue.

In addition to direct contributions received from associated organizations, contributions include those received from the Special Olympic Fund to repay debts and cover 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 exchange rate fluctuation at the time of repayment of debts in foreign currency, which are assumed directly by the Special Olympic Fund.

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

The Régie was awarded a subsidy, determined using budgetary forecasts, for financial assistance to offset the deficit.

5. INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

Changes in other assets and liabilities break down as:

	2006	2005
Accounts receivable	(19)	(825)
Gouvernement du Québec subsidy receivable	10 000	(10 000)
Inventory	(19)	(98)
Prepaid expenses	2	12
Accounts payable and accrued liabilities	1 125	126
Owing to the Construction Fund	12	
Deferred grants	10 942	10 000
	<u>22 043</u>	<u>(785)</u>

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2006
(in thousands of dollars)

6. CAPITAL ASSETS

	2006		
	Cost	Accumulated depreciation	Net
Equipment	15 172	13 782	1 390
Structure and specific improvements	87 579	38 962	48 617
Leasehold improvements	5 664	5 664	
Automotive equipment	1 753	1 616	137
	<u>110 168</u>	<u>60 024</u>	<u>50 144</u>

	2005		
	Cost	Accumulated depreciation	Net
Equipment	14 754	13 426	1 328
Structure and specific improvements	74 334	35 522	38 812
Leasehold improvements	5 664	5 664	
Automotive equipment	1 704	1 557	147
	<u>96 456</u>	<u>56 169</u>	<u>40 287</u>

7. BANK LOAN

The Régie has a \$10 000 000 credit line bearing interest at the lender's base rate and renewable in February 2007.

8. DEFERRED SUBSIDIES

	2006	2005
Subsidy – Operating Fund		
Opening balance	366	366
Receipts	19 100	20 000
	<u>19 466</u>	<u>20 366</u>
Amount posted to revenue	19 098	20 000
	<u>19 098</u>	<u>20 000</u>
Closing balance	<u>368</u>	<u>366</u>
Subsidy – Capital assets plan		
Opening balance	27 859	19 100
Receipts	10 940	
Receivables		10 000
	<u>38 799</u>	<u>29 100</u>
Amortization	(1 794)	(1 241)
	<u>37 005</u>	<u>27 859</u>
Closing balance	<u>37 373</u>	<u>28 225</u>

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2006
(in thousands of dollars)

9. LONG-TERM DEBT

	2006	2005
Operating Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances, 4.152%, repayable in annual instalments of \$3 750 000, maturing in March 2007	3 750	7 500

The Operating Fund's long-term debt payment for the coming fiscal year totals \$3 750 000.

	2006	2005
Construction Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances du Québec		
4.33%, maturing on November 6, 2006	1 000	
4.33%, maturing on November 14, 2006	1 000	
3.06857%		6 500
3.10447%		6 500
3.18382%		6 500
3.25202%		6 500
3.32079%		6 500
3.38955%		6 500
3.44639%		6 500
3.47688%		6 500
	2 000	52 000

The Construction Fund's long-term debt payment for the coming fiscal year is \$2 000 000.

10. INSTALLATION CONSTRUCTION COST

	2006	2005
Installations used by the Régie		
Olympic Park		
Opening balance	1 204 660	1 204 327
Annual construction cost		
New roof	409	333
Closing balance	1 205 069	1 204 660
Capitalized interest on long-term debt	16 160	16 160
	1 221 229	1 220 820
Installations disposed of		
Vélodrome (a)	82 804	82 804
Biodôme (a)	50 397	50 397
	133 201	133 201
Olympic Village (b)	122 520	122 520
	1 476 950	1 476 541

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2006
(in thousands of dollars)

10. INSTALLATION CONSTRUCTION COST (cont'd)

- (a) In 1994, as per an agreement with the City of Montréal, the Régie transferred ownership of the Biodôme to the City. The cost of owning this property is \$133 201 000, i.e. \$82 804 000 for the Vélodrome and \$50 397 000 for the Biodôme (see Note 3).
- (b) The Olympic Village was sold on April 14, 1998 to a private enterprise by call for tender. The accounting treatment of the disposal of the Village is consistent with the accounting policy for the sale of assets set out in Note 3.

11. EXPENSES TO BE ASSUMED BY THE SPECIAL OLYMPIC FUND

	2006	2005
Interest on loan refinancing	19 486	19 486
Accrued interest on loans		4
Deferred exchange loss on long-term debt in USF	96 971	96 971
	<u>116 457</u>	<u>116 461</u>

12. CONTRIBUTIONS RECEIVED

	2006	2005
Special Olympic Fund	1 329 377	1 278 790
Olympic Games Organizing Committee	191 362	191 362
City of Montréal	70 649	70 649
	<u>1 591 388</u>	<u>1 540 801</u>

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, accounts receivable and accrued liabilities are financial instruments whose fair value is close to their book, given that they mature in the short term.

Long-term debt

The fair value of the Revenue Fund's long-term debt is approximately \$3 732 000 (2005: \$7 464 000). To establish this fair value, the Régie capitalized future cash flows projected under the rate agreement available to the Régie on the date of the financial statements for a borrowing involving similar conditions and term.

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.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2006
(in thousands of dollars)

14. CONTINGENCIES

Lawsuits and claims have been instituted by or against the Régie.

As at October 31, 2006, unsettled lawsuits and claims pending against the Régie totalled approximately \$22 000 000 (2005: \$21 800 000).

Of this amount, claims totalling \$20 100 000 (2005: \$20 200 000) were submitted to our insurance companies for the January 18, 1999 incident. It is currently impossible to determine the resulting financial impact.

Based on an analysis of claims whose outcome is foreseeable, an assessment would indicate that the provisions recorded are sufficient for all such lawsuits and claims.

RÉGIE DES INSTALLATIONS OLYMPIQUES**AUDITORS' REPORT**

To the Minister responsible for the
Régie des installations olympiques

We have audited the balance sheets of the Operating Fund and the Construction Fund of the Régie des installations olympiques as at October 31, 2006 and the statements of operations, appropriated surplus and operating surplus of the Operating Fund and cash flows of the Operating Fund and the Construction Fund for the year then ended. These financial statements were prepared in keeping with the Act respecting the Régie des installations olympiques and the Act to establish a Special Olympic Fund and are the responsibility of the Régie's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at October 31, 2006 and the results of its operations and 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 prepared, and need not be prepared, in accordance with Canadian generally accepted accounting principles, are supplied solely for information purposes and for use by the Minister responsible for the Régie des installations olympiques. They were not designed for use, and should not be used, by persons other than those specifically defined or for purposes other than those for which they were prepared.

Raymond Chabot Grant Thornton S.E.N.C.R.L.
Chartered Accountants

Montréal, December 15, 2006

RÉGIE DES RENTES DU QUÉBEC

(R.S.Q., c. R-9, c. R-15.1, c. P-19.1)

QUÉBEC PENSION PLAN FUND

STATEMENT OF OPERATIONS AND NET ASSETS

for the year ended March 31, 2007

(in thousands of dollars)

	2007	2006 (Note 4)
REVENUES		
Contributions to the Québec Pension Plan	8 944 361	8 904 005
Minus: bad debts related to uncollected contributions (Note 6)	7 000	
	8 937 361	8 904 005
Investment income - net (Note 7)	4 118 176	4 342 253
Other	1 876	2 093
	13 057 413	13 248 351
EXPENSES		
Pensions and benefits paid		
Retirement benefits	6 056 265	5 686 575
Surviving spouse's benefits	1 440 462	1 427 293
Disability pensions	720 877	689 922
Orphans' pensions	16 408	16 407
Pensions to the children of disabled contributors	9 887	9 516
Death benefits	90 581	89 909
	8 334 480	7 919 622
Reimbursement of social aid benefits to the Ministère de l'Emploi et de la Solidarité sociale	2 951	3 249
	8 337 431	7 922 871
Administrative expenses (Note 8)	97 876	87 527
	8 435 307	8 010 398
EXCESS REVENUES OVER EXPENSES	4 622 106	5 237 953
NET PLAN ASSETS, BEGINNING OF YEAR		
Previously established balance	28 480 473	23 264 757
Change in contributions receivable from Revenu Québec (Note 4)	492 157	469 920
Balance, end of year	28 972 630	23 734 677
NET PLAN ASSETS, END OF YEAR	33 594 736	28 972 630

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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> (Note 4)
ASSETS		
Amount receivable from an other funds administered by the Régie des rentes du Québec	1 988	242
Amounts entrusted to the Caisse de dépôt et placement du Québec (Note 9)	33 628 733	29 128 592
Contributions receivable from Revenu Québec	566 896	578 855
Accounts receivable	5 766	23 577
Capital assets (Note 10)	<u>34 724</u>	<u>34 785</u>
	<u>34 238 107</u>	<u>29 766 051</u>
LIABILITIES		
Outstanding cheques less cash on hand (Note 11)	51 977	47 466
Advances from the Caisse de dépôt et placement du Québec (Note 11)	448 517	590 865
Accounts payable	118 562	132 365
Owed to an other funds administrated by the Régie des rentes du Québec	1 398	
Provision for vacation time, sick leave and other (Note 14)	<u>22 917</u>	<u>22 725</u>
	<u>643 371</u>	<u>793 421</u>
NET QUÉBEC PENSION PLAN ASSETS (Note 2)	<u>33 594 736</u>	<u>28 972 630</u>
	<u><u>34 238 107</u></u>	<u><u>29 766 051</u></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, Vice-President

RÉGIE DES RENTES DU QUÉBEC**QUÉBEC PENSION PLAN FUND**
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u> (Note 4)
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Excess revenues over expenditure	4 622 106	5 237 953
Non-cash items:		
Increase in the fair value of participation deposits	(1 720 286)	(2 850 840)
Loss on sale of capital assets	155	1
Amortization of capital assets	9 023	9 309
Amortization of capital assets attributed to other funds	<u>1 969</u>	<u>2 141</u>
	2 912 967	2 398 564
Net change in non-cash items related to operating activities	<u>(54 037)</u>	<u>(67 694)</u>
Cash receipts related to operating activities	<u>2 858 930</u>	<u>2 330 870</u>
CASH FLOW RELATED TO INVESTMENT ACTIVITIES INVOLVING CAPITAL ASSETS		
Revenues from the sale of capital assets	1	14
Disbursements related to the acquisition of capital assets	<u>(11 087)</u>	<u>(11 775)</u>
Net disbursements related to investment activities involving capital assets	<u>(11 086)</u>	<u>(11 761)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Net disbursements related to the acquisition of participation deposits	<u>(2 710 007)</u>	<u>(2 717 006)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137 837	(397 897)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(638 331)</u>	<u>(240 434)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15)	<u><u>(500 494)</u></u>	<u><u>(638 331)</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**
STATEMENT OF OPERATIONS AND FUND BALANCE
 for the year ended March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Fees	6 371	6 337
Guardianships and liquidation	1 009	270
Other	<u>173</u>	<u>76</u>
	7 553	6 683
Yield attributed by the Québec Pension Plan Fund (Note 5)	<u>1 287</u>	<u>1 218</u>
	<u>8 840</u>	<u>7 901</u>
EXPENSES		
Administrative expenses (Note 5)		
Salaries and fringe benefits	4 316	4 413
Mail and communications	127	178
Travelling expenses	56	51
Professional and technical services	447	675
Building maintenance and rental	247	235
Computer maintenance and rental	104	100
Supplies	30	24
Other	11	9
Bad debts	(14)	7
Amortization of capital assets allocated by the Québec Pension Plan Fund	181	180
Amortization of the Fund's capital assets	74	95
Professional fees related to tutorship and winding-up of plans	<u>877</u>	<u>349</u>
	<u>6 456</u>	<u>6 316</u>
EXCESS REVENUES OVER EXPENSES	2 384	1 585
FUND BALANCE, BEGINNING OF YEAR	<u>8 584</u>	<u>6 999</u>
FUND BALANCE, END OF YEAR	<u>10 968</u>	<u>8 584</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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash on hand	10 254	9 258
Accounts receivable	42	161
Owed by the Quebec Pension Plan Fund	1 398	
Capital assets (Note 10)	<u>160</u>	<u>161</u>
	<u>11 854</u>	<u>9 580</u>
 LIABILITIES		
Owed to the Québec Pension Plan Fund		93
Provision for vacation time, sick leave, etc. (Note 14)	<u>886</u>	<u>903</u>
	886	996
 FUND BALANCE	<u>10 968</u>	<u>8 584</u>
	<u>11 854</u>	<u>9 580</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, Vice-President

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Excess revenues over expenses	2 384	1 585
Non-cash item:		
Amortization of the Fund's capital assets	<u>74</u>	<u>95</u>
	2 458	1 680
Net variation in non-cash items related to operating activities	<u>(1 389)</u>	<u>460</u>
Net receipts related to operating activities	<u>1 069</u>	<u>2 140</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES INVOLVING CAPITAL ASSETS		
Disbursements related to the acquisition of capital assets	<u>(73)</u>	<u>(54)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	996	2 086
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9 258</u>	<u>7 172</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15)	<u><u>10 254</u></u>	<u><u>9 258</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT****STATEMENT OF OPERATIONS**

for the year ended March 31, 2007

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Gouvernement du Québec contribution	30 125	27 030
Other revenue	<u>9</u>	<u>4</u>
	<u>30 134</u>	<u>27 034</u>
EXPENSES		
Financial expenses (Note 5)		
Salaries and fringe benefits	15 825	14 594
Mail and communications	1 928	1 838
Travelling expenses	209	184
Professional and technical services	4 332	2 938
Outside expert medical opinions		10
Building maintenance and rental	1 433	1 219
Computer maintenance and rental	933	741
Supplies	144	110
Other	34	39
Participation in the financing of the Tribunal administratif du Québec	173	212
Amortization of the capital assets allocated by the Québec Pension Plan	1 788	1 961
Amortization of the Fund's capital assets	<u>2 935</u>	<u>2 814</u>
	<u>29 734</u>	<u>26 660</u>
Financial expenses		
Interest on short-term note payable	180	79
Interest on long-term note payable	192	293
Other interest charges	<u>28</u>	<u>2</u>
	<u>400</u>	<u>374</u>
	<u>30 134</u>	<u>27 034</u>
EXCESS REVENUES OVER EXPENSES	<u><u> </u></u>	<u><u> </u></u>

The notes are integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT**

BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Gouvernement du Québec receivable	3 840	919
Capital assets (Note 10)	<u>12 401</u>	<u>11 783</u>
	<u>16 241</u>	<u>12 702</u>
LIABILITIES		
Québec Pension Plan Fund payable	1 988	149
Accrued expenses	104	70
Provision for vacation time, sick leave, etc. (Note 14)	1 271	1 020
Notes payable (Note 12)	<u>12 878</u>	<u>11 463</u>
	<u>16 241</u>	<u>12 702</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, Vice-President

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT****STATEMENT OF CASH FLOWS**

for the year ended March 31, 2007

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Excess revenues over expenses		
Non-cash items:		
Amortization of the Fund's capital asses	2 935	2 814
	<u>2 935</u>	<u>2 814</u>
Net variation in non-cash items related to operating activities	<u>(797)</u>	<u>316</u>
Net receipts related to operating activities	<u>2 138</u>	<u>3 130</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES INVOLVING CAPITAL ASSETS		
Fund withdrawals related to capital asset acquisition and investment activities	<u>(3 553)</u>	<u>(3 935)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Receipts from notes payable	3 557	2 733
Reimbursement of notes payable	<u>(2 142)</u>	<u>(1 928)</u>
Net receipts linked to financing activities	<u>1 415</u>	<u>805</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u> </u>	<u> </u>
OPENING AND CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u> </u>	<u> </u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

(in thousands of dollars)

1. CONSTITUTION AND MANDATE OF THE RÉGIE DES RENTES DU QUÉBEC

The Régie was created in 1965 by the Québec Pension Plan Act (1965, chapter 24) to administer the Québec Pension Plan Act (R.S.Q., c. R-9) and the Supplemental Pension Plans Act (R.S.Q., c. R-15.1) and to pay the refundable child support tax credit provided for in the Act following up on the Budget Speech of March 30, 2004 (S.Q., 2005, c. 1), which amends the Income Tax Act (R.S.Q., c. I-3).

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.

D) QUÉBEC PENSION PLAN

The Act respecting the Québec Pension Plan came into force on January 1, 1966. The Québec Pension Plan is a compulsory program designed to provide workers and their dependants with basic protection against loss of income due to retirement, disability or death.

Québec Pension Plan Fund funding and net assets

The Québec Pension Plan is financed out of contributions shared equally between employees and employers. Self-employed workers must pay both contributions.

The Plan uses the so-called partial funding financing method in which the year's contributions are used to pay current benefits, constitute a reserve allowing the Plan's financing to be stabilized in a context of population aging and protect the Plan from economic fluctuations. The net Québec Pension Plan Fund assets represent a reserve of funds available for the payment of pensions and benefits, the reimbursement of social aid benefits and the Plan's administrative expenses. These net assets do not cover the actuarial present value of pensions and benefits accrued and payable. At March 31, 2007, the Régie's net assets were \$33.6 billion (2006: \$29 billion), or 4 times the amount of the pensions and benefits paid out in fiscal 2006-2007.

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 assistance 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 performed every three years, the next one will report on the Plan's situation at December 31, 2006. It is currently under way and its results will be published on the coming months.

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. If the equilibrium rate were applied immediately, the reserve would be higher and generate sufficient investment income to offset the shortfall that appears when conditions are inferior to disbursements. It would then grow at the same rate as disbursements, maintaining a stable ratio between the reserve and annual disbursements.

According to actuarial analysis assumptions for 2003, this equilibrium rate is 10.3%, a difference of 0.4 point 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. In the coming months, the results of the new actuarial analysis, dated December 31, 2006, will provide a new measurement of this difference.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 March 31, 2007
 (in thousands of dollars)

2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)**I) QUÉBEC PENSION PLAN (cont'd)****Québec Pension Plan Fund funding and net assets (cont'd)**

The preliminary findings of the actuarial analysis of December 31, 2006 show that the equilibrium rate should be higher than the 10.3% shown in the actuarial analysis of 2003. This would confirm that the difference exceeds the tolerance zone by 0.3 point for a second consecutive actuarial analysis. The Plan could, however, pay pensions, benefits and the Plan administrative expenses and reimburse the Ministère de l'Emploi et de la Solidarité sociale for social assistance benefits owing until 2036, i.e. for the minimum projection period provided for by the Act. Note that more detail will be available on these initial findings will be once the actuarial analysis is completed in the coming months.

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. The last consultation dates from 2004.

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 age 65. For new beneficiaries, at March 31, 2007, the maximum monthly pension payable at age 65 was \$863.75.

Surviving spouse's benefits

In the event of death, the surviving spouse is entitled to a pension determined according to the amount contributed to the Plan by the deceased for at least one-third of the contributory period (minimum three years; maximum ten years). The amount of this pension varies mainly according to the surviving spouse's age and the deceased' pensionable earnings and contributions. For new beneficiaries, at March 31, 2007, the maximum monthly pension payable to a surviving spouse was \$729.84.

Disability pension

A disability pension is payable to any disabled contributor subject to the provisions of the Act respecting the Québec Pension Plan. The amount of the pension varies according to the disabled person's gains and contributions. For new beneficiaries, at March 31, 2007, the maximum monthly pension payable to a disabled contributor was \$1 053.74.

Benefits - pensions payable to the children of disabled contributors and to orphans

For new beneficiaries, at March 31, 2007, the amount of monthly benefits payable to each dependent child or orphan of a disabled or deceased contributor was \$64.99.

Death benefits

Death benefits are payable first to the person who paid the funeral expenses, provided that person applies for the benefits within 60 days of the contributor's death. After 60 days, the benefit is payable to qualified applicants within the meaning of the Act respecting the Québec Pension Plan. The amount of this benefit was set at \$2 500 in January 1998 pour for all contributors meeting Plan requirements.

Benefit indexation

Pensions are indexed annually to the average Canadian consumer price index. On January 1, 2007, the rate of indexation was 2.1%.

RÉGIE DES RENTES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(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) REFUNDABLE CHILD SUPPORT TAX
ADMINISTRATION 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 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 (with or without spouse), number of dependant children living at home, family income for the previous year and number of child in joint custody. A supplement is also paid for eligible handicapped children.

The Régie deals with customer relations and payment of child support measures.

3. ACCOUNTING POLICIES

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

Capital assets

Capital assets are shown at acquisition cost. Assets such as “computer systems development” comprise capitalized costs for direct labour, interest and other costs linked directly to systems development up to the start-up date.

Capital assets are amortized in accordance with 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 in accordance with the straight-line method over the remaining term of the lease.

Computer systems development is an intangible asset and all other immovables are capital assets.

RÉGIE DES RENTES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans. Only the Régie's contributions are charged to the fiscal year's results according to the contribution rates determined for regular service. The Régie's obligations towards these government plans are restricted to its employer contributions.

Amounts entrusted to the Caisse de dépôt et placement du Québec

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

Plan contributions

Revenu Québec collects the contributions for the Régie and regularly pays them to the latter. These amounts are provisional and subject to verification and correction. These contributions are recorded according to the best estimate at the fiscal year-end. Where applicable, adjustments are posted to the fiscal year in which they are known.

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 become known.

4. CHANGE IN ACCOUNTING POLICY

As of this fiscal year, the contributions that Revenu Québec must collect from its agents on the salaries they pay up to March 31 but which must be remitted to the Department in April are now treated as revenue for the current fiscal year. This change, applied retroactively, resulted in an increase in the following financial statement items:

	<u>2006</u>
Contributions receivable from Revenu Québec	492 157
Net Québec Pension Plan assets	492 157
Plan contributions	22 237
Excess revenues over expenditure	22 237
Net change in non-cash items related to operating activities	(22 237)

5. 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 really devoted to each fund or other appropriate indicators.

The cash and cash equivalents 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.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

**6. EXPENSES RELATED TO CONTRIBUTIONS COLLECTED
BY REVENU QUÉBEC**

	2007	2006
Administrative expenses	21 258	13 803
Expenses inherent in accounts receivable:		
Interest paid by Revenu Québec	794	
Interest earned by Revenu Québec when collecting accounts receivable	(2 892)	
Bad debt related to contributions not collected	7 000	
	<u>26 160</u>	<u>13 803</u>

According to the Act respecting the Québec Pension Plan, Revenu Québec is the agency mandated to collect Plan contributions. In the context of this mandate, the Department invoices the Régie for administrative and other expenses it incurs for accounts receivable. These expenses have been determined by Order-in-Council based on the expenses actually incurred by Revenu Québec. Under an agreement signed in 1998 with Revenu Québec, these expenses are reassessed periodically and indexation mechanisms are provided for between assessments.

In fiscal 2005-2006, Revenu Québec completed the periodic reassessment of the administrative and other expenses inherent in accounts receivable applicable as of fiscal 2006-2007. These analyses also justified the fact that Revenu Québec suspended invoicing expenses inherent in accounts receivable since the beginning of fiscal 2003-2004.

The 1998 agreement with Revenu Québec is currently being renegotiated and the effective date envisaged was April 1, 2007. However, when work was being completed in the financial statements for fiscal 2007, this agreement had not yet been signed so that we were unable to confirm the final terms and condition for measuring and indexing the components of collection costs for 2007-2008 and thereafter.

7. QUÉBEC PENSION PLAN FUND INVESTMENT INCOME

	2007	2006
Revenues		
Revenue from participation deposits in the Caisse de dépôt et placement du Québec	1 272 912	1 015 532
Interest on demand deposits in the Caisse de dépôt et placement du Québec	8 154	2 444
	<u>1 281 066</u>	<u>1 017 976</u>
Interest and penalty earnings on the issue of contribution notices	19 328	32 790
Interest earned by Revenu Québec on collection of accounts receivable (Note 6)	2 892	
Other interest	29	19
	<u>1 303 315</u>	<u>1 050 785</u>
Amounts carried forward		

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

7. QUÉBEC PENSION PLAN FUND INVESTMENT INCOME (cont'd)

	2007	2006
Amounts brought forward	1 303 315	1 050 785
Expenses		
Interest on advances from the Caisse de dépôt et placement du Québec	(5 138)	(3 896)
Interest on pensions and benefits	(1 387)	(970)
Interest borne by Revenu Québec (note 6)	(794)	
Yield attributed to the Supplemental Pension Plans Monitoring Fund (Note 5)	(1 287)	(1 218)
Interest on bank overdraft	(4)	(2)
Exchange losses	(83)	(32)
Other interest	(209)	(19)
	(8 902)	(6 137)
	1 294 413	1 044 648
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec		
Increase in the fair value of participation deposits	1 720 286	2 850 840
Net gains on sale of investments	1 103 477	446 765
	2 823 763	3 297 605
	4 118 176	4 342 253

8. QUÉBEC PENSION PLAN FUND ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	43 931	41 855
Mail and communications	3 910	3 785
Travelling expenses	691	763
Professional and technical services	8 233	7 002
Outside expert medical opinions	1 644	1 718
Building maintenance and rental	3 660	3 784
Computer maintenance and leasing	2 400	2 092
Supplies	737	697
Other	96	98
Expenses related to collection of contributions by Revenu Québec (Note 6)	21 258	13 803
Participation in the financing of the Tribunal administratif du Québec	1 400	1 713
Overpaid pension and benefits	618	709
Bad debts	275	199
Amortization of capital assets	9 023	9 309
	97 876	87 527

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

9. QUÉBEC PENSION PLAN SPECIAL FUND AMOUNTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2007	2006
Régie des rentes special fund deposits with the Caisse de dépôt et placement du Québec		
Participation deposits	33 452 832	29 022 539
Investment income receivable	175 901	106 053
	<u>33 628 733</u>	<u>29 128 592</u>

The Régie des rentes special fund participation deposits with the Caisse de dépôt et placement du Québec are expressed in units. These units are refundable subject to prior notice in keeping with the terms of Caisse regulations at the fair value of the special fund's net equity at month's end. At March 31, 2007, the Régie owned 31 278 429 participation units (2006: 28 617 497).

	2007	2006
Cost of units	<u>26 730 323</u>	<u>24 020 316</u>

10. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Québec Pension Plan Fund				
Office furniture and equipment	5 358	4 616	742	758
Data processing equipment and software	30 284	25 089	5 195	4 825
Automotive equipment	61	61		
Leasehold improvements	4 649	3 040	1 609	1 746
Computer systems development	94 874	67 696	27 178	27 456
	<u>135 226</u>	<u>100 502</u>	<u>34 724</u>	<u>34 785</u>
Supplemental Pension Plans Monitoring Fund				
Computer systems development	<u>1 882</u>	<u>1 722</u>	<u>160</u>	<u>161</u>
Refundable Child Support Tax Credit Administration Fund				
Computer systems development	<u>37 130</u>	<u>24 729</u>	<u>12 401</u>	<u>11 783</u>

RÉGIE DES RENTES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

10. CAPITAL ASSETS (cont'd)

Acquisitions for the year are:

	<u>Acquisitions before interest</u>	<u>Capitalized interest</u>	<u>Total acquisitions</u>
Québec Pension Plan Fund	11 087		11 087
Supplemental Pension Plans Monitoring Fund	73		73
Refundable Child Support Tax Credit Administration Fund	3 361	192	3 553

Capital assets with a net book value of \$156 001 were sold during the fiscal year in the Québec Pension Plan Fund. Revenue from the sale totalled \$1 000.

11. ADVANCES AND BANK BORROWINGS**Caisse de dépôt et placement du Québec advances**

Caisse de dépôt et placement du Québec advances are not guaranteed and are limited to \$650 million. They bear interest at the demand deposit rate established daily plus 0.05%. The agreement terminates on January 4, 2008

Other bank borrowings

At March 31, 2007, the Régie had an unguaranteed credit line of \$50 million renewable annually on September 1, 2007. Amounts used bear interest at the prime rate.

12. NOTES PAYABLE

	<u>2007</u>	<u>2006</u>
Refundable Child Support Tax Credit Administration Fund		
Short-term borrowing		6 496
Long-term borrowing	<u>12 878</u>	<u>4 967</u>
	<u>12 878</u>	<u>11 463</u>

Short-term borrowing

The borrowing on a note from the Gouvernement du Québec's Financing Fund was converted to a long-term borrowing on March 30, 2007. This borrowing was contracted to finance Refundable Child Support Tax Credit Administration Fund computer systems development, with the Régie acting as the government's agent.

Long-term borrowing

The long-term borrowing now comprises the following four bills of the Gouvernement du Québec's Financing Fund:

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

12. NOTES PAYABLE (cont'd)

	2007	2006
Borrowing No. 1 on a note, bearing interest at 4.03%, after issuing and management costs until June 1, 2008	2 825	4 967
Borrowing No. 2 on a note, bearing interest at 4.24%, after issuing and management costs until October 10, 2009	612	
Borrowing No. 3 on a note, bearing interest at 4.31%, after issuing and management costs until October 10, 2011	1 441	
Borrowing No. 4 on a note, bearing interest at 4.34%, after issuing and management costs until October 10, 2013	8 000	
	<u>12 878</u>	<u>4 967</u>

Payments of principal on the long-term borrowing for the next five years are:

2008	3 864 689
2009	2 241 823
2010	1 628 960
2011	1 548 568
2012	1 469 690

Gouvernement du Québec guarantee

To guarantee the payment of principal and interest, the Minister of Family is authorized by the Government, after ensuring that the funds concerned cannot legally discharge their obligations, to pay the Régie the required sums.

13. 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 equal their book value given that they mature in the near future.

Long-term borrowing

At March 31, 2007, given the capitalization of cash flows at the market value for similar fixed-rate securities, the fair value of the Refundable Child Support Tax Credit Administration Fund long-term borrowing is:

Borrowing No. 1 on a note, maturing June 1, 2008	2 856
Borrowing No. 2 on a note, maturing October 10, 2009	613
Borrowing No. 3 on a note, maturing October 10, 2011	1 446
Borrowing No. 4 on a note, maturing October 10, 2013	<u>8 024</u>
	<u><u>12 939</u></u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

14. FRINGE BENEFITS**Pension plans**

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that 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, totalled \$2 823 479 (2006: \$2 689 167). Its liability towards these government plans is restricted to its employer contributions.

Provision for vacation time, sick leave, etc.

	<u>2007</u>	<u>2006</u>
Québec Pension Plan Fund		
Balance, beginning of year	22 725	22 065
Expenses	7 528	7 796
Used	<u>(7 336)</u>	<u>(7 136)</u>
Balance, end of year	<u><u>22 917</u></u>	<u><u>22 725</u></u>
Supplemental Pension Plans Monitoring Fund		
Balance, beginning of year	903	885
Expenses	304	318
Used	<u>(321)</u>	<u>(300)</u>
Balance, end of year	<u><u>886</u></u>	<u><u>903</u></u>
Refundable Child Support Tax Credit Administration Fund		
Balance, beginning of year	1 020	944
Expenses	659	466
Used	<u>(408)</u>	<u>(390)</u>
Balance, end of year	<u><u>1 271</u></u>	<u><u>1 020</u></u>

15. CASH FLOW

The cash and cash equivalents shown in the cash flow statement include the following financial statement items:

	<u>2007</u>	<u>2006</u>
Québec Pension Plan Fund		
Outstanding cheques minus cash	(51 977)	(47 466)
Advances from the Caisse de dépôt et placement du Québec	<u>(448 517)</u>	<u>(590 865)</u>
	<u><u>(500 494)</u></u>	<u><u>(638 331)</u></u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

15. CASH FLOW (cont'd)

	<u>2007</u>	<u>2006</u>
Supplemental Pension Plans Monitoring Fund		
Cash	<u>10 254</u>	<u>9 258</u>

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 la Famille et des Aînés reimbursed the Régie for all expenses incurred for this Fund.

The following chart shows the interest paid during the fiscal year. This interest is already included in the expense categories of each fund presented in the results statement or the notes to the financial statements:

	<u>2007</u>	<u>2006</u>
Québec Pension Plan Fund	<u>7 332</u>	<u>5 263</u>
Refundable Child Support Tax Credit Administration Fund	<u>373</u>	<u>454</u>

16. CONTRACTUAL COMMITMENTS

The Régie had already signed contracts for fiscal 2008 and thereafter totalling \$37 680 276 with various suppliers, including \$608 875 for Refundable Child Support Tax Credit Administration Fund computer systems development projects and \$257 127 for the Supplemental Pension Plans Monitoring Fund.

RÉGIE DES RENTES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the funds administered by the Régie des rentes du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal auditing department performs periodic audits to ensure that internal controls are adequate, ongoing and applied consistently by the Régie.

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

The Régie's head actuary conducts an actuarial analysis of the Québec Pension Plan every three years, in keeping with recognized actuarial standards. This analysis provides information on the Plan's capacity for paying long-term benefits and determines the rate of the balance contribution. These elements then figure in the Québec Pension Plan Fund's financial statements. The head actuary presents the actuarial analysis to the President-CEO, who transmits it to the Minister responsible for the Régie for tabling in the National Assembly.

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

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

Pierre Prémont, Ph. D., FCA
President-CEO

Louis Larouche, CA
Director, Corporate Comptrolling and
Material Resources

Québec, May 29, 2007

RÉGIE DES RENTES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the financial statements of the Québec Pension Plan Fund as at March 31, 2007 and the statements of operations and net assets and cash flows for the fiscal year then ended. I have also audited the balance sheets of the Supplemental Pension Plans Monitoring Fund and the Refundable Child Support Tax Credit Administration Fund of the Régie des rentes du Québec as at March 31, 2007; the statements of operations and fund balance and cash flows for the Supplemental Pension Plans Monitoring Fund and the statements of operations and cash flows for the Refundable Child Support Tax Credit Administration Fund for the fiscal year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of the Régie's funds as at March 31, 2007 and the results of their operations and cash flow for the fiscal year then ended, in keeping with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 29, 2007

RÉGIE DU BÂTIMENT DU QUÉBEC
(R.S.Q., c. B-1.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007 (12 months)	2006 (4 months)
REVENUES		
Sectorial tariffing	\$24 654 167	\$7 977 722
Professional qualification	21 951 473	7 260 987
Other (Note 3)	911 296	30 728
	<u>47 516 936</u>	<u>15 269 437</u>
EXPENSES		
Salaries and fringe benefits	24 136 118	7 712 164
Transportation and communications	2 910 623	930 225
Professional and administrative services	6 859 828	1 801 147
Rent, maintenance and repairs	3 362 052	1 096 541
Material and supplies	419 928	173 767
Amortization of capital assets	833 581	330 677
Amortization of intangible assets	434 264	240 361
Write-off of tangible assets	74 221	
Doubtful debts	20 445	20 180
	<u>39 051 060</u>	<u>12 305 062</u>
EXCESS REVENUES OVER EXPENSES AND SURPLUS AT END OF YEAR	<u><u>\$8 465 876</u></u>	<u><u>\$2 964 375</u></u>

The notes are an integral part of the financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2007

	2007		2006
	Unappropriated cumulated surplus	Cumulated surplus allocated to the contingency reserve	Total
BALANCE, BEGINNING OF YEAR	\$2 964 375		\$2 964 375
Excess revenues over expenses	8 465 876		8 465 876
Allocation to the contingency reserve (Note 13)	<u>(7 500 000)</u>	<u>\$7 500 000</u>	
BALANCE, END OF YEAR	<u><u>\$3 930 251</u></u>	<u><u>\$7 500 000</u></u>	<u><u>\$11 430 251</u></u>
			<u><u>\$2 964 375</u></u>

The notes are an integral part of the financial statements.

RÉGIE DU BÂTIMENT DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$21 826	\$61 096
Accounts receivable (Note 4)	5 371 416	4 627 433
Advance to the Consolidated Revenue Fund (Note 5)	10 718 147	1 596 425
Gouvernement du Québec receivable (Note 6)	736 356	3 897 957
Prepaid expenses	330 066	132 977
	<u>17 177 811</u>	<u>10 315 888</u>
Gouvernement du Québec receivable (Note 6)	2 821 290	3 557 646
Capital assets (Note 7)	502 791	1 122 188
Intangible assets (Note 8)	<u>9 035 945</u>	<u>7 148 726</u>
	<u><u>\$29 537 837</u></u>	<u><u>\$22 144 448</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$4 142 565	\$3 723 476
Vacation compensation owed to employees	2 637 447	2 544 132
Short-term portion of long-term debt (Note 11)	524 397	
	<u>7 304 409</u>	<u>6 267 608</u>
Provision for sick leave (Note 12)	5 215 524	4 966 223
Long-term debt (Note 11)	5 587 653	7 946 242
	<u>18 107 586</u>	<u>19 180 073</u>
UNAPPROPRIATED CUMULATED SURPLUS	3 930 251	2 964 375
CUMULATED SURPLUS ALLOCATED TO THE CONTINGENCY RESERVE (Note 13)	<u>7 500 000</u>	
	<u><u>\$29 537 837</u></u>	<u><u>\$22 144 448</u></u>
COMMITMENTS (Note 14)		
CONTINGENCY (Note 15)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Josée De La Durantaye
Daniel Gilbert

RÉGIE DU BÂTIMENT DU QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u> (Note 16)
OPERATING ACTIVITIES	
Excess revenues over expenses	\$8 465 876
Amortization of capital assets	833 581
Amortization of intangible assets	434 264
Write-off of intangible assets	74 221
Change in assets and liabilities related to operations:	
Accounts receivable	(743 983)
Gouvernement du Québec receivable	3 897 957
Prepaid expenses	(197 089)
Accounts payable and accrued liabilities (excluding the amount related to capital assets, i.e. \$1 409 424)	(990 335)
Vacation pay owing to employees	93 315
Provision for sick leave	<u>249 301</u>
Cash flows related to operating activities	<u>12 117 108</u>
INVESTMENT ACTIVITIES	
Acquisition of capital assets and intangible assets (excluding Accounts payable related to capital assets, i.e. \$1 409 424)	<u>(1 200 464)</u>
FINANCING ACTIVITIES	
Long-term debt reimbursement	<u>(1 834 192)</u>
INCREASE OF CASH AND ADVANCE TO THE CONSOLIDATED REVENUE FUND	9 082 452
CASH AND ADVANCE TO THE CONSOLIDATED FUND, BEGINNING OF YEAR	<u>1 657 521</u>
CASH AND ADVANCE TO THE CONSOLIDATED FUND, END OF YEAR	<u>\$10 739 973</u>

The notes are an integral part of the financial statements.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Régie du bâtiment du Québec, created by the Building Act (R.S.Q., c. B-1.1), is mandated to oversee the administration of the said Act in order to protect the public. To carry out its mission, the Régie performs the duties listed in section 111 of the Building Act (R.S.Q., c. B-1.1). In addition, the Régie oversees four other statutes and their regulations in different technical sectors: the Pressure Vessels Act (R.S.Q., c. A-20.01), Act respecting the conservation of energy in buildings (R.S.Q., c. E.1.1), Stationary Enginemen Act (R.S.Q., c. M-6) and Public Buildings Safety Act (R.S.Q., c. S-3). These statutes will eventually be replaced by new chapters on the Building Code and Safety Code in the Building Act (R.S.Q., c. B-1.1).

The Act to amend the Building Act and other legislative provisions (Bill 98 assented to on June 17, 2005 and coming into effect on December 1, 2005) converted the Régie into an independent agency financed out of a separate budget. The Régie became a legal person and Gouvernement du Québec agency, funding its activities from its revenues.

Under section 88 of its incorporating statute, the Régie is an agent of the State and, consequently, is not subject to Québec or Canadian income tax.

2. ACCOUNTING POLICIES

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

Capital assets

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

- Leasehold improvements	Maximum duration of lease 10 years
- Furniture and equipment	5 years
- Computer equipment	3 years

The capital assets transferred when the Régie became an independent agency with separate funding at December 1, 2005 are amortized based on their remaining service life at the time of the transfer.

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

Intangible assets

Intangible assets, composed of software and computer systems development, are recorded at cost and amortized over their estimated service life in accordance with the straight-line method and the following durations:

Computer development	5 and 7 years
Software	3 years

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Intangible assets (cont'd)**

Intangible assets undergo a depreciation test when events or changes in the situation indicate that it may not be possible to recover their book value. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Computer systems development transferred when the Régie became an agency with separate funding on December 1, 2005 is amortized based on its remaining service life at the time of the transfer.

Amortization of computer systems development under way will begin the month after the service comes online.

Revenue reporting

Revenues from inspections and qualification are reported in the fiscal year in which they are earned, based on the rate-setting methods in effect determined by regulation. However, if adjustments in inspection revenues are required, given that their reporting is linked to declarations made by contractors, these adjustments are posted to inspection revenues for the fiscal year in which they become known.

Other revenues represent interest income, reported in accordance with the accrual method, and proceeds from various sources, reported when the good is delivered or the service rendered, the amount is, or can be, determined and recovery is reasonably certain.

Pension plans

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

3. OTHER REVENUE

	2007 (12 months)	2006 (4 months)
Gouvernement du Québec contribution – pay equity	\$661 389	
Interest income	208 784	\$24 374
Other	41 123	6 354
	<u>\$911 296</u>	<u>\$30 728</u>

4. CLAIMS

	2007	2006
Sectorial tariffing	\$4 692 439	\$4 379 613
Professional qualification	777 197	339 064
Gouvernement du Québec	117 723	509 575
Employees	7 499	7 881
Interest accrued receivable	91 400	
Other	25 478	39 235
	<u>5 711 736</u>	<u>5 275 368</u>
Provision for doubtful debts	<u>(340 320)</u>	<u>(647 935)</u>
	<u>\$5 371 416</u>	<u>\$4 627 433</u>

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. ADVANCE TO THE CONSOLIDATED REVENUE FUND**

The advance to the Consolidated Revenue Fund bears interest at the prime rate (6.0%) minus 2.5%, which represented 3.5% at March 31, 2007 (3.0% at March 31, 2006).

6. GOUVERNEMENT DU QUÉBEC RECEIVABLE

The Gouvernement du Québec receivable for the value of banks of sick leave and vacation time transferred at December 1, 2005 does not bear interest. The terms of encashment will be reviewed annually to reflect the actual use of these banks.

The terms of encashment envisaged at March 31, 2007 are:

	2007	2006
2006-2007		\$3 897 957
2007-2008	\$736 356	736 356
2008-2009	736 356	736 356
2009-2010	736 356	736 356
2010-2011	736 357	736 357
2011-2012	612 221	612 221
Total	3 557 646	7 455 603
Minus: Short-term portion	736 356	3 897 957
	<u>\$2 821 290</u>	<u>\$3 557 646</u>

7. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Leasehold improvements	\$343 697	\$128 045	\$215 652
Furniture and equipment	67 696	21 175	46 521
Computer equipment	1 255 653	1 015 035	240 618
	<u>\$1 667 046</u>	<u>\$1 164 255</u>	<u>\$502 791</u>
			<u>\$1 122 188</u>

During the fiscal year, capital asset acquisitions totalled \$214 184 (2006: \$213 015).

8. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Computer systems development	\$1 246 469	\$674 625	\$571 844
Computer systems development in progress	8 464 101		8 464 101
	<u>\$9 710 570</u>	<u>\$674 625</u>	<u>\$9 035 945</u>
			<u>\$7 148 726</u>

During the fiscal year, computer systems development costs totalled \$2 395 704 (2006: \$682 695).

During the fiscal year, computer systems development in progress was written off for \$74 221 (2006: 0\$).

RÉGIE DU BÂTIMENT DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2007	2006
Accounts payable and accrued liabilities	\$4 142 565	\$2 655 235
Ministère du Travail		1 068 241
	<u>\$4 142 565</u>	<u>\$3 723 476</u>

10. SHORT-TERM BORROWING

The Régie has an authorized credit line of a maximum of \$5 000 000 with the Gouvernement du Québec expiring on March 31, 2011. At March 31, 2007, none of this amount had been used. Sums withdrawn bear interest at the National Bank of Canada's prime rate and are payable on June 30 and December 31 each year. At March 31, 2007, the prime rate was 6% (5.50% at March 31, 2006).

11. LONG-TERM DEBT**Owing to the Gouvernement du Québec**

After the Régie du bâtiment du Québec was converted to an independent agency with separate funding on December 1, 2005, capital assets and the intangible asset whose net book value totalled \$7 946 242 were transferred to it. In consideration, the Régie must repay this amount to the Gouvernement du Québec, via the Ministère du Travail, through instalments equal to the total of the annual amortization cost and other adjustments to the net book value of the assets that were the object of the transfer.

	2007	2006
Amount owed to the Gouvernement du Québec, interest-free, repayable in annual instalments spread over the service life of the assets transferred	\$7 946 242	\$7 946 242
Reimbursement in 2007 not determined in 2006	(1 834 192)	
Short-term portion of long-term debt	(524 397)	
	<u>\$5 587 653</u>	<u>\$7 946 242</u>

Among the assets transferred was an intangible assets of \$5 459 922 for which the development work had not been completed. Payments of principal related to this asset cannot be determined precisely until they become operational.

Under the agreement with the Government, the amounts of the payments of principal foreseen for the coming fiscal years for assets that are operational are estimated at: \$524 397 in 2007-2008, \$172 043 in 2008-2009 and \$7 367 in 2009-2010.

Borrowing programs

Under Order-in-Council 377-2006, the Régie is authorized to institute a borrowing program of up to \$15 000 000 until September 30, 2007. At March 31, 2007, this borrowing had not been contracted.

12. FUTURE FRINGE BENEFITS**Pension plans**

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Régie's contributions posted to operations for the fiscal year totalled \$970 352 (2006 (4 months): \$302 639). Its liability towards these Government plans is restricted to its employer contributions.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**12. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

	2007	2006
Balance, beginning of year	\$4 966 223	\$5 182 168
Annual expenses	1 362 156	247 728
Benefits paid	<u>(1 112 855)</u>	<u>(463 673)</u>
Balance, end of year	<u>\$5 215 524</u>	<u>\$4 966 223</u>

13. CUMULATED SURPLUS ALLOCATED TO THE CONTINGENCY RESERVE

Under a decision by the Board of Directors, the Régie created a contingency reserve to protect itself from unforeseen events that might compromise its financial stability and capacity to accomplish its mission of quality and safety. The amount targeted by the reserve was \$15 M over five years and the allocation for fiscal 2006-2007 was set at \$7.5 M.

14. COMMITMENTS

Under service agreements with the Ministère de l'Emploi et de la Solidarité sociale (MESS), the Régie committed to paying, by March 31, 2008, \$3 820 800 for administrative and computer support and \$5 813 995 for carrying out work to modernize its business processes and systems.

It also concluded an agreement with the MESS to harmonize its technological infrastructures for \$701 250 to be paid as follows: \$302 536 in 2007-2008, \$300 189 in 2008-2009 and \$98 525 in 2009-2010.

Finally, the Régie made commitments under other contracts related to modernizing its business processes and systems to pay its suppliers \$9 094 850 by March 4, 2009 or a later date, as specified in contracts between the parties. It is also committed to paying \$479 779 in the next fiscal year to certain suppliers of professional services.

15. CONTINGENCY

The Régie is one of the parties involved in a \$3-million lawsuit against the Attorney General of Québec. When these financial statements were prepared the Régie was unable to determine the outcome of this dispute.

16. CASH FLOWS

The statement of cash flows is presented for the current year only given that it requires more than a reasonable effort to determine it for the previous fiscal year.

17. RELATED PARTY TRANSACTIONS

An amount of \$4 705 082 representing the administrative and data processing support services supplied by the MESS is included in expenses for professional services and computer systems development in progress.

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 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.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

18. FINANCIAL INSTRUMENTS

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

The fair value of the amount receivable from the Gouvernement du Québec and the long-term debt cannot be estimated given the absence of a market for this type of instrument.

19. COMPARATIVE FIGURES

Certain figures for 2006 were reclassified to comply with the presentation adopted for 2007.

MANAGEMENT'S REPORT

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

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

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

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

Daniel Gilbert
President-CEO

Lison Dubé
Director, Modernisation and Management Services

Québec, May 18, 2007

RÉGIE DU BÂTIMENT DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Régie du bâtiment du Québec as at March 31, 2007 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 18, 2007

RÉGIE DU CINÉMA
(R.S.Q., c. C-18.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Examination fees:		
Film classification requests	\$1 513 065	\$1 376 055
Licence applications	90 216	101 444
Licences	1 097 051	1 285 080
Video material monitoring	13 277 621	11 999 438
Interests	1 780 598	871 884
Other	210	420
	<u>17 758 761</u>	<u>15 634 321</u>
 EXPENSES		
Salaries and fringe benefits	3 234 747	2 855 288
Rent	437 525	451 173
Printing services	202 719	183 733
Transportation and communication	823 834	262 953
Amortization of capital assets	80 573	59 090
Amortization of intangible assets	49 521	59 677
Professional and administrative services	400 323	344 760
Materials and supplies	76 056	80 462
Maintenance and repairs	60 367	40 326
	<u>5 365 665</u>	<u>4 337 462</u>
 EXCESS OF REVENUES OVER EXPENSES	12 393 096	11 296 859
 CUMULATED SURPLUS, BEGINNING OF YEAR	<u>45 086 072</u>	<u>33 789 213</u>
 CUMULATED SURPLUS, END OF YEAR	<u>\$57 479 168</u>	<u>\$45 086 072</u>

The notes are an integral part of the financial statements.

RÉGIE DU CINÉMABALANCE SHEET
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$57 649 141	\$45 584 217
Accounts receivable and accrued interest	<u>789 463</u>	<u>574 625</u>
	58 438 604	46 158 842
Capital assets (Note 3)	291 947	258 856
Intangible assets (Note 4)	<u>119 473</u>	<u>112 442</u>
	<u>\$58 850 024</u>	<u>\$46 530 140</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$237 552	\$307 271
Provision for vacation time	293 303	295 325
Owing to the Gouvernement du Québec	219	290
Revenues collected in advance	<u>416 635</u>	<u>427 315</u>
	947 709	1 030 201
Provision for sick leave (Note 5)	<u>423 147</u>	<u>413 867</u>
	1 370 856	1 444 068
CUMULATED SURPLUS (Note 6)	<u>57 479 168</u>	<u>45 086 072</u>
	<u>\$58 850 024</u>	<u>\$46 530 140</u>
COMMITMENTS (Note 7)		

The notes are an integral part of the financial statements.

On behalf of the Régie,
Jean Lebel, Chairman
Jean-Pierre Gagnon, Director of Administration

RÉGIE DU CINÉMANOTES TO THE FINANCIAL STATEMENTS
March 31, 2007**1. CONSTITUTION AND PURPOSE**

The Régie du cinéma is a body established by the Cinema Act (R.S.Q., c. C-18.1) to:

- classify films;
- publish regularly, by such means as it considers appropriate, information on the films classified;
- periodically hold consultations on the classification of films;
- issue, renew, suspend or revoke exhibitors' or distributors' licences;
- supervise and monitor the sale, leasing, lending or exchange of video material, and to issue filing certificates;
- 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

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Funds' cash flows during the year.

Revenue recording

Revenue is recorded when services are rendered or earned, to the extent that their measurement and recovery are reasonably certain.

Interest income is recorded based on the number of days cash was held during the fiscal year.

Capital assets

Capital assets are recorded at cost and amortized over their service life in accordance with the straight-line method as follows:

Office furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	10 years

The Régie regularly examines its capital assets' book value, comparing it with the unrealized future cash flows expected to be generated by them. Surplus book value over fair value is posted to results for the period in which the depreciation was determined.

RÉGIE DU CINÉMA

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets are recorded at cost and amortized over their service life in accordance with the straight-line method as follows:

Computer equipment 5 years

They undergo a depreciation test when events or changes in situation indicate that it may not be possible to recover their book value. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Pension plans

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

3. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net book value
Office furniture and equipment	\$105 257	\$28 926	\$76 331
Computer equipment	186 888	132 523	54 365
Leasehold improvements	175 515	14 264	161 251
	<u>\$467 660</u>	<u>\$175 713</u>	<u>\$291 947</u>
			<u>\$258 856</u>

Capital asset acquisitions for the fiscal year totalled \$113 664 (2006: \$190 331).

4. INTANGIBLE ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net book value
Computer development	<u>\$304 159</u>	<u>\$184 686</u>	<u>\$119 473</u>
			<u>\$112 442</u>

Intangible asset acquisitions for the fiscal year totalled \$56 552 (2006: none).

5. FUTURE FRINGE BENEFITS

Pension plans

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Régie's contributions posted to operations for the fiscal year totalled \$141 306 (2006: \$120 004). Its liability towards these Government plans is restricted to its employer contributions.

RÉGIE DU CINÉMANOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

	2007	2006
Balance, beginning of year	\$413 867	\$377 355
Annual expenses	101 055	102 223
Benefits paid	(91 775)	(65 711)
Balance, end of year	<u>\$423 147</u>	<u>\$413 867</u>

6. CUMULATED SURPLUS

As stipulated in section 144.3 of the Cinema Act (R.S.Q., c. C-18.1), the Régie's receipts must be used to pay its obligations. Any surplus must be paid into the Consolidated Revenue Fund on the dates and according to the amounts determined by the Government.

7. COMMITMENTS

The Régie is committed, under long-term contracts ending on various dates up to September 30, 2010, to paying for administrative services and photocopier rental. Minimum future payments are:

2008	\$111 580
2009	110 855
2010	2 880
2011	916
	<u>\$226 231</u>

8. RELATED PARTY TRANSACTIONS

The Régie has an exchange of service agreement with the Ministère de la Culture et des Communications. Under it, the Régie is mandated to inspect accredited bookstores in Québec and, in exchange, the Department agrees to provide the Régie with all human resource management services under its jurisdiction. This exchange is not reflected in the financial statements.

In addition to the related party transactions disclosed in its financial statements, the Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Régie did not 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**Fair value**

The book value of short-term financial instruments represents a reasonable estimate of their fair value, given that they mature in the short term.

Interest rate risk

The Régie signed a service agreement with the Ministère des Finances for management of its receipts. This agreement provides for payment of surpluses at the prime rate minus 2.5%.

RÉGIE DU CINÉMA

MANAGEMENT'S REPORT

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. Management carries out periodic audits to ensure that the Régie's internal monitoring is adequate, ongoing and applied consistently.

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

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

Jean Lebel
President

Jean-Pierre Gagnon
Director, Administration

Montréal, June 19, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie du cinéma as at March 31, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Régie's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Régie as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 19, 2007

SERVICES QUÉBEC
(R.S.Q., c. S-6.3)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the period ended March 31, 2007

	2007 (12 months)	2006 (11 months)
REVENUES		
Management fees		
Ministère des Services gouvernementaux	\$8 650 563	\$24 011 973
Other related parties under joint control	1 944 815	304 513
Gouvernement du Québec contribution	36 821 265	
Gouvernement du Québec – Reimbursement to compensate for pay equity	454 011	289 400
	<u>47 870 654</u>	<u>24 605 886</u>
EXPENSES		
Salaries and fringe benefices	21 262 812	13 254 998
Salaries and fringe benefits related to pay equity	454 011	289 400
Transportation and communications services	2 927 460	1 557 978
Professional and administrative services	15 412 891	7 116 194
Maintenance and repairs	487 149	269 105
Rent		
Société immobilière du Québec	2 414 098	1 430 946
Other	94 339	69 338
Material and supplies	539 563	291 872
Interest on long-term debt	38 342	3 037
Interest and bank charges	47 283	
Amortization of capital assets	694 861	311 535
Amortization of intangible assets	120 843	
Loss on devaluation of capital assets		11 483
	<u>44 493 652</u>	<u>24 605 886</u>
EXCESS OF REVENUES OVER EXPENSES AND CUMULATED SURPLUS, END OF YEAR	<u>\$3 377 002</u>	

The notes are an integral part of the financial statements.

SERVICES QUÉBEC

BALANCE SHEET
March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$6 505	
Advance from the Consolidated Revenue Fund, interest-free, no encashment terms	6 372 978	
Accounts receivable (Note 3)	8 406 711	\$20 521 076
Prepaid expenses	122 225	62 892
Deferred expenses		147 806
Gouvernement du Québec receivable (Note 4)	1 573 134	2 220 433
	<u>16 481 553</u>	<u>22 952 207</u>
Gouvernement du Québec receivable (Note 4)	2 347 204	2 067 213
Capital assets (Note 5)	5 940 563	944 237
Intangible assets (Note 6)	2 257 500	97 940
	<u>\$27 026 820</u>	<u>\$26 061 597</u>
LIABILITIES		
Current liabilities		
Ministère des Finances advances, interest-free, no repayment terms		\$17 200 084
Accounts payable and accrued liabilities (Note 7)	\$13 128 034	2 975 772
Provision for vacation time	2 591 219	1 787 581
Deferred revenue	19 528	
Long-term debt repayments (Note 9)	485 058	155 116
	<u>16 223 839</u>	<u>22 118 553</u>
Deferred revenue	7 888	
Long-term debt (Note 9)	2 408 187	445 002
Provision for sick leave (Note 11)	5 009 904	3 498 042
	<u>23 649 818</u>	<u>26 061 597</u>
CUMULATED SURPLUS	3 377 002	
	<u>\$27 026 820</u>	<u>\$26 061 597</u>
COMMITMENTS (Note 12)		
SUBSEQUENT EVENT (Note 16)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Jean Leclerc, President
Pierre Roy, President-CEO

SERVICES QUÉBECSTATEMENT OF CASH FLOWS
for the period ended March 31, 2007

	2007 (12 months)	2006 (11 months)
OPERATING ACTIVITIES		
Excess revenues over expenses	\$3 377 002	
Items not affecting cash on hand:		
Amortization of capital assets	694 861	\$311 535
Amortization of intangible assets	120 843	
Transfer of deferred revenue	(65)	
Loss on devaluation of capital assets		11 483
	<u>4 192 641</u>	<u>323 018</u>
Change in assets and liabilities related to operations:		
Accounts receivable	12 114 365	(20 521 076)
Gouvernement du Québec receivable	367 308	
Prepaid expenses	(59 333)	(62 892)
Deferred expenses	147 806	(147 806)
Accounts payable and accrued liabilities	8 766 252	2 231 628
Provision for vacation time	803 638	485 912
Provision for sick leave	1 511 862	512 065
Deferred revenue	27 481	
	<u>23 679 379</u>	<u>(17 502 169)</u>
Cash flows from (for) operating activities	<u>27 872 020</u>	<u>(17 179 151)</u>
INVESTMENT ACTIVITIES		
Intangible asset acquisitions	(2 998 797)	
Capital asset acquisitions	(1 026 204)	(8 010)
Cash flows for investment activities	<u>(4 025 001)</u>	<u>(8 010)</u>
FINANCING ACTIVITIES		
Increase (decrease) in Ministère des Finances advances	(17 200 084)	17 200 084
Long-term debt repayment	(267 452)	(12 923)
Cash flows (for) from financing activities	<u>(17 467 536)</u>	<u>17 187 161</u>
INCREASE OF CASH AND CASH EQUIVALENTS	<u>6 379 483</u>	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	<u>\$6 379 483</u>	

The notes are an integral part of the financial statements.

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

Services Québec, a legal person within the meaning of the Civil Code of Québec, was established under section 1 of the Act respecting Services Québec (R.S.Q., c. S-6.3), which came into effect on May 2, 2005, to offer citizens and businesses throughout Québec a single window for easier access to public services.

Services Québec finances its activities through revenues from the fees, commissions and honoraria it receives under agreements or orders-in-council, revenues from the goods and services it offers and other receipts.

Under section 2 of its incorporating legislation, Services Québec is an agent of the State and, as such, is not subject to Québec or Canadian income taxes.

2. ACCOUNTING POLICIES

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

Capital assets

Capital assets are recorded at cost and amortized over their service life in accordance with the straight-line method as follows:

Leasehold improvements	5 years
Data processing equipment	3 years
Office equipment	5 years

Services Québec regularly examines its capital assets' book value, comparing it with undiscounted future cash flows expected to be generated. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Intangible assets

Intangible assets, comprising software, computer and other development, are reported at cost and amortized over their estimated service life in accordance with the straight-line method as follows:

Software	5 years
Computer and other development	5 years

They undergo a depreciation test when changes in the situation indicate that it might not be possible to recover their book value. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Assets under development are amortized when completed and operating.

Revenue reporting

Contributions for capital asset purchases are deferred and posted to revenues in accordance with the method used for the amortization of the capital assets acquired.

Amounts received from partners for projects not completed at March 31, 2007 are deferred and posted to revenues in the fiscal year the projects are completed.

SERVICES QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

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

Cash and cash equivalents

Cash and cash equivalents include cash items and the advance to the Consolidated Revenue Fund.

3. ACCOUNTS PAYABLE

	2007	2006
Ministère des Services gouvernementaux	\$7 894 313	\$19 927 163
Secrétariat du Conseil du trésor – pay equity	43 000	289 400
Ministère de la Sécurité publique	174 479	
Revenu Québec	119 934	
Centre de services partagés du Québec		210 000
Other jointly-controlled related parties	174 985	94 513
	<u>\$8 406 711</u>	<u>\$20 521 076</u>

4. GOUVERNEMENT DU QUÉBEC RECEIVABLE

The Gouvernement du Québec receivable for provisions for sick leave and vacation time does not bear interest. The terms and conditions of encashment are:

	2007
2008	\$1 573 134
2009	885 766
2010	885 766
2011	290 112
2012	97 516
2013 and thereafter	188 044
	<u>3 920 338</u>
Minus: short-term portion	<u>1 573 134</u>
	<u>\$2 347 204</u>

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. CAPITAL ASSETS**

	2007			2006
	Cost	Accumulated deficit	Net	Net
Leasehold improvements	\$3 151 290	\$190 465	\$2 960 825	\$171 992
Data processing equipment	1 833 392	581 375	1 252 017	369 550
Office equipment	1 962 278	234 557	1 727 721	402 695
	<u>\$6 946 960</u>	<u>\$1 006 397</u>	<u>\$5 940 563</u>	<u>\$944 237</u>

6. INTANGIBLE ASSETS

	2007			2006
	Cost	Accumulated deficit	Net	Net
Software	\$465 858	\$4 806	\$461 052	\$24 030
Computer development	1 465 613	80 774	1 384 839	
Other development	446 872	35 263	411 609	73 910
	<u>\$2 378 343</u>	<u>\$120 843</u>	<u>\$2 257 500</u>	<u>\$97 940</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Suppliers and accrued expenses	\$3 626 116	\$837 521
Salaries and fringe benefits	789 131	474 938
Centre de services partagés du Québec	7 321 610	785 526
Ministère des Services gouvernementaux	852 428	398 729
Other jointly-controlled related parties	538 749	479 058
	<u>\$13 128 034</u>	<u>\$2 975 772</u>

8. OWING TO THE CONSOLIDATED REVENUE FUND

Under Order-in-Council 222-2006, dated March 29, 2006, the Gouvernement du Québec authorized one or more advances up to a maximum of \$6 000 000 from the Financing Fund. These advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2011. At March 31, 2007, this interest rate was 6.0% and the balance was zero.

SERVICES QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**9. LONG-TERM DEBT**

	<u>2007</u>	<u>2006</u>
Borrowing of \$2 665 117 from the Société immobilière du Québec, at a fixed rate of 4.70%, repayable in monthly instalments of \$38 370, maturing between July 31, 2010 and December 31, 2017	\$2 520 334	\$91 614
Borrowing from the Ministère des Services gouvernementaux, interest-free, repayable at the rate used to amortize assets acquired	<u>372 911</u>	<u>508 504</u>
	2 893 245	600 118
Minus: Portion maturing within one year	<u>485 058</u>	<u>155 116</u>
	<u><u>\$2 408 187</u></u>	<u><u>\$445 002</u></u>

Capital payments to be made over the next five fiscal years break down as:

	<u>2007</u>
2008	\$485 058
2009	501 839
2010	434 696
2011	437 309
2012	301 732
2013 and thereafter	<u>732 611</u>
	<u><u>\$2 893 245</u></u>

10. PORTAL

Services Québec develops and operates the government services portal for the Ministère des Services gouvernementaux. The revenues and expenses shown below are included in the statement of operations results and cumulated surplus and break down as:

	<u>2007</u>	<u>2006</u>
REVENUES		
Management fees - Ministère des Services gouvernementaux	<u>\$8 650 563</u>	<u>\$6 387 285</u>
EXPENSES		
Portal development		
Salaries and fringe benefits	356 149	427 907
Professional and administrative services	2 809 075	4 635 405
Portal operation		
Salaries and fringe benefits	1 046 698	
Professional and administrative services	<u>4 386 869</u>	<u>1 323 973</u>
	<u>8 598 791</u>	<u>6 387 285</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$51 772</u></u>	

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

11. FUTURE FRINGE BENEFITS

Services Québec staff participates in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel. These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

Service Québec's contributions charged to the year-end statement totalled \$920 432 (2006: \$486 816). Its liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Opening balance following a transfer	\$3 498 042	\$2 985 977
Annual expenses	2 143 096	910 265
Benefits paid	<u>(631 234)</u>	<u>(398 200)</u>
Closing balance	<u>\$5 009 904</u>	<u>\$3 498 042</u>

12. COMMITMENTS

Operating-lease contracts

Commitments for operating-lease contracts pertain primarily to photocopier rental and break down as:

2008	\$44 289
2009	40 722
2010	30 546
2011	17 153
2012	<u>4 585</u>
	<u>\$137 295</u>

Professional service contracts

Commitments for professional service contracts total \$4 511 331 for the coming fiscal year and \$2 158 940 for years following.

SERVICES QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**13 CASH FLOWS**

Cash and cash equivalents are shown in the statement of cash flows and include the following amounts disclosed in the balance sheet:

	2007	2006
Cash and cash on hand	\$6 505	
Advance to the Consolidated Revenue Fund	6 372 978	
Cash and cash equivalents	<u>\$6 379 483</u>	

This fiscal year, capital assets and intangible assets were acquired for an amount of \$2 560 579 (2006: \$539 131) in consideration for long-term debts with the Société immobilière du Québec. No intangible asset was financed this fiscal year (2006: \$73 910).

As at March 31, 2007, the item "Accounts payable and accrued liabilities" included capital asset and intangible asset acquisitions totalling \$859 935 (2006: \$728 124) and \$1 270 219 (2006: \$16 020) respectively.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Services Québec is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. Services Québec did not 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**Fair value**

The fair value of short-term financial instruments equals their book value, given that they mature in the short term. The fair value of the items "Borrowing from the Ministère des Services gouvernementaux" and "Gouvernement du Québec receivable" cannot be estimated, given the absence of a market for this type of financial instrument.

The fair value of the "Borrowing from the Société immobilière du Québec" equals its book value given that the rate is equivalent.

Interest rate risk

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

The long-term debt with the Société immobilière du Québec bears interest at a fixed rate. Given that Services Québec expects to repay the entire borrowing at term, the long-term debt risks to which it is exposed are minimal.

16. SUBSEQUENT EVENT

On September 28, 2007, Services Québec contracted a long-term borrowing of \$5 813 427 from the Financing Fund maturing in December 2011 to finance capital assets acquired in the fiscal year ended March 31, 2007.

17. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SERVICES QUÉBEC**MANAGEMENT'S REPORT**

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

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

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

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

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

Pierre Roy
President-CEO

Lise Cossette
Director, Financial Resources

Québec, October 12, 2007

SERVICES QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of Services Québec as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the period then ended. These financial statements are the responsibility of Services Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of Services Québec as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, October 12, 2007

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
(R.S.Q., c. D-8.2)

STATEMENT OF INCOME AND CUMULATED DEFICIT
for the year ended December 31, 2006

	2006	2005
REVENUES (Note 3)		
Service delivery (Note 4)	\$12 423 238	\$10 743 320
Sales	5 574 415	4 752 838
Rent	1 352 712	1 485 156
Management income	1 204 880	1 113 308
Gain (loss) on sale of investment	8 685 066	(46 741)
Investment income	299 818	257 376
Income from commitments	24 000	17 000
Other income	97 371	87 657
	<u>29 661 500</u>	<u>18 409 914</u>
EXPENSES (Note 3)		
Services to contractors	8 719 062	7 503 237
Salaries and fringe benefits	3 631 233	3 812 066
Purchases	2 679 266	2 372 871
Maintenance and repairs	962 508	997 275
Electricity	686 205	640 151
Taxes, licences and permits	745 978	768 656
Rental costs	182 199	183 953
Staff-related expenses	174 176	144 386
Insurance	273 469	269 208
Communications	180 193	178 951
Advertising	121 315	69 891
Office expenses	48 867	45 460
Road equipment	1 074 797	611 829
Doubtful accounts	5 918	278 410
Amortization of capital assets	167 248	263 248
Professional fees	459 617	238 617
Studies and market development	66 428	54 443
Other expenses	24 575	117 592
Gain on sale of capital assets	(2 632)	(15 030)
Interest and bank charges	57 872	106 503
Interest on long-term debt	5 003	41 374
	<u>20 263 297</u>	<u>18 683 091</u>
OPERATING EARNINGS (LOSS)	9 398 203	(273 177)
Permanent net depreciation in investments (Note 9)		(3 558 554)
Share in results of satellite corporation	92 813	(57 627)
NET EARNINGS (LOSS) (Note 3)	9 491 016	(3 889 358)
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(67 596 766)</u>	<u>(63 707 408)</u>
CUMULATED DEFICIT, END OF YEAR	<u><u>\$(58 105 750)</u></u>	<u><u>\$(67 596 766)</u></u>

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESBALANCE SHEET
as at December 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 475 155	\$474 670
Bonds (Note 5)	1 536 790	
Accounts receivable (Note 6)	5 867 657	4 051 198
Inventories (Note 7)	206 284	206 915
Prepaid expenses	3 208	19 562
	<u>9 089 094</u>	<u>4 752 345</u>
Assets intended for sale (Note 8)	1 524 624	1 515 860
Investments (Note 9)	10 891 729	4 894 227
Capital assets (Note 10)	857 677	890 416
Assets in the form of accrued benefits (Note 16)	<u>193 008</u>	<u>197 127</u>
	<u>13 467 038</u>	<u>7 497 630</u>
	<u>\$22 556 132</u>	<u>\$12 249 975</u>
LIABILITIES		
Current liabilities		
Bank overdraft		\$740 623
Bank borrowing (Note 12)		150 000
Accounts payable	\$6 268 424	4 041 681
Holdbacks on contracts	265 958	186 937
Instalment on long-term debt (Note 13)		600 000
	<u>6 534 382</u>	<u>5 719 241</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 14)	69 825 000	69 825 000
Contributed surplus	4 302 500	4 302 500
Cumulated deficit	<u>(58 105 750)</u>	<u>(67 596 766)</u>
	<u>16 021 750</u>	<u>6 530 734</u>
	<u>\$22 556 132</u>	<u>\$12 249 975</u>
CONTINGENCIES (Note 19)		
COMMITMENTS (Note 20)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Michel Garon, Director
Raymond Thibault, Director

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESSTATEMENT OF CASH FLOWS
for the year ended December 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Net earnings (loss)	\$9 491 016	\$(3 889 358)
Items not affecting liquid assets:		
Depreciation of capital assets	167 248	263 248
Gain on sale of capital assets	(2 632)	(15 030)
Permanent loss in value on investments		3 558 554
Gain (loss) on sale of investments	(8 685 066)	46 741
Change in net asset for accrued pension benefits	4 119	(10 852)
Share in the results of the satellite corporation	(92 813)	57 627
Change in non-cash elements related to operations (Note 15)	350 874	374 020
Cash flows from operating activities	1 232 746	384 950
INVESTMENT ACTIVITIES		
Bonds maturing in the short term	(1 536 790)	
Acquisition of investments	(8 171 646)	(970 834)
Proceeds from sale of investments	10 952 023	1 933 964
Acquisition of assets intended for sale (Note 8)	(1 164 909)	(1 794 055)
Contribution to assets intended for sale (Note 8)	1 156 145	1 791 255
Acquisition of capital assets	(210 867)	(305 352)
Proceeds from sale of capital assets	5 631	54 530
Contribution to capital assets	228 775	198 683
Cash flows from investment activities	1 258 362	908 191
FINANCING ACTIVITIES		
Bank loan repayment	(150 000)	(1 525 000)
Long-term debt repayment	(600 000)	(40 000)
Cash flows for financing activities	(750 000)	(1 565 000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 741 108	(271 859)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(265 953)	5 906
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15)	\$1 475 155	\$(265 953)

At December 31, 2006, the item the "Accounts payable" included capital asset acquisitions of \$155 416.

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS
December 31, 2006**1. CONSTITUTION AND PURPOSE**

The Société de développement de la Baie-James (the Société), whose shares are all held by the Gouvernement du Québec, was established under the James Bay Region Development Act (R.S.Q., c. D-8.2) to promote the territory's sustainable economic and other development, and natural resource harvesting, other than hydroelectric. It may initiate, support and participate in projects targeting these goals. Its mission also includes developing territory under municipal jurisdiction for development and land use planning purposes.

2. ACCOUNTING POLICIES**Accounting estimates**

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

Inventories

Inventories are valued at cost (determined using successive depletion method) or net realization value, whichever is less.

Investments

Investments in public and private corporations are recorded at acquisition cost.

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 permanent net depreciation in investments' book value and the resulting loss is posted to the fiscal year's results.

Capital assets

Capital assets are recorded at cost minus contributions from third parties and amortized over their estimated service life in accordance with the straight-line method as follows:

Buildings and improvements to buildings owned	
for rental purposes	5, 10 and 20 years
Modular homes	10 years
Furniture, fixtures, equipment and infrastructures	3 and 5 years
Computer hardware and vehicles	3 years

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

Assets intended for sale

Long-term assets intended for sale are estimated at book value or fair value (determined using the price of similar goods) minus selling cost, whichever is less. They cease to be amortized as long as they are classified as intended for sale.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd) December 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Revenue reporting

Service deliveries, sales and management income

Revenue from service delivery, sales and management income are posted when the following conditions have been met:

- There is convincing evidence that an agreement exists;
- Delivery has occurred or the service has been rendered;
- The selling price has been determined or can be determined;
- Recovery is reasonably certain.

Rental income

The Société reports its basic rental costs in accordance with the straight-line method over the duration of the rental contracts. Surplus rent reported over amounts receivable under rental contracts is shown as rent receivable in the balance sheet. Certain rental contracts include conditions requiring tenants to reimburse a proportional share of property taxes and shared costs. These amounts are reported over the period in which the related expenses are incurred. Expenses are reimbursed on a monthly basis based on the amount estimated at the beginning of the fiscal year. Any difference between the amount reimbursed and the amount reported as rental income is posted to rent receivable or payable.

Investment income and revenue from commitments

Investment operations are recorded the date of the transaction and the resulting income is reported in accordance with the accrual method. Interest income is reported according to the number of days the investment is held during the fiscal year. Dividends are reported as of the date of the ex-dividend. Gains and losses on the sale of investments are established in accordance with the average cost method. Transaction fees associated with the acquisition or sale of investments are included in the cost of investments acquired or treated as a reduction in the proceeds from the sale of these investments.

Pension plan

The cost of the pension plan is determined by actuarial calculation and the plan is capitalized using contributions determined in accordance with the accumulated benefit method. Pension costs are recorded under results and represent the sum of the following:

- The cost of pension benefits granted in exchange for services rendered by employees during the fiscal year;
- Interest charges on the accumulated benefit obligation and estimated yield on plan assets. To calculate the estimated yield on plan assets, the latter are assessed at fair value;
- Amortization of the net cumulative actuarial gains and losses, unconsolidated and higher than 10% of the accumulated benefits obligation or of the fair value of plan assets, whichever is higher as calculated in accordance with 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 2006 and 2005).

Tax status

Under federal and provincial tax legislation, the Société is not subject to Québec or Canadian income tax. It is, however, subject to provincial tax on capital.

Cash flows

The Société's policy consists in presenting bank balances including bank overdrafts whose balances often fluctuate between an overdraft and available funds under cash and cash equivalents.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**3. NET EARNINGS BY ACTIVITY**

	2006			2005
	Revenues	Expenses	Other expenses	Net earnings (loss)
Head office	\$144 360	\$1 145 364		\$(1 001 004)
Services	13 457 049	12 426 846		1 030 203
Economic development	8 981 539	541 426	\$92 813	8 532 926
Real estate	1 409 223	1 354 415		54 808
Hotel	5 669 329	4 795 246		874 083
	<u>\$29 661 500</u>	<u>\$20 263 297</u>	<u>\$92 813</u>	<u>\$(3 889 358)</u>

The Société records its revenues and expenses by activity sector as follows:

Head office activities

- Management fees earned
- Interest earnings
- Gain or loss on transfer of capital assets
- Interest expenses
- Expenses related to the Matagami and Chibougamau offices
- Expenses related to administrative services, human resources and data processing
- Expenses related to the board of directors, the presidency and the vice-presidency office
- Communication expenses
- Airport immoveables assistance program (PAIA)

Service activities

- Management of infrastructures

Economic development activities

- Mining claims management
- Management and income investments
- Gain or loss on sale of investments
- Economic development projects
- Expenses related to the economic development and investment

Real estate activities

- Building operations

Real estate, hotel and petroleum industry activities

- Management of Auberge Radisson
- Operation of km 381 Rest Stop

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**4. SERVICE DELIVERY**

The Société provides transportation infrastructure management services as follows:

	2006	2005
Related parties:		
Hydro-Québec	\$11 030 149	\$9 460 021
Ministère des Transports	1 289 772	1 139 533
Other	103 317	143 766
	<u>\$12 423 238</u>	<u>\$10 743 320</u>

The maintenance and operating costs for the road linking Matagami to Radisson and Chisasibi, the Transtaïga highway, and the La Grande-Rivière and Fontanges airports are paid by Hydro-Québec. These assets are managed by a management committee composed of Hydro-Québec and Société representatives.

5. BONDS

The Société holds various municipal and school board bonds bearing interest at 3.87% to 4.00% and maturing from April to July 2007.

6. ACCOUNTS RECEIVABLE

	2006	2005
Hydro-Québec	\$4 946 260	\$3 176 308
Ministère des Transports	222 470	125 644
Other	979 421	1 036 495
	<u>6 148 151</u>	<u>4 338 447</u>
Allowance for doubtful accounts	<u>(280 494)</u>	<u>(287 249)</u>
	<u>\$5 867 657</u>	<u>\$4 051 198</u>

7. INVENTORIES

	2006	2005
Petroleum products	\$151 901	\$143 070
Other	54 383	63 845
	<u>\$206 284</u>	<u>\$206 915</u>

8. 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 16, 2004 to add Auberge Radisson. The potential buyer is a public enterprise. Management foresees that the sales plan will be completed in its entirety by June 30, 2007. Given that the Société and the potential buyer still intend to complete this property transfer and given that the pays the operating costs and the Pierre-Radisson complex improvement costs, these assets are shown as assets intended for sale. Improvements to assets intended for sale in the amount of \$1 164 909 were carried out in the fiscal year (2005: \$1 794 055) at the request of the potential buyer, which reimbursed these costs almost in full.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**8. ASSETS INTENDED FOR SALE** (cont'd)

The net value of assets intended for sale is:

	<u>2006</u>	<u>2005</u>
Capital assets	<u>\$1 524 624</u>	<u>\$1 515 860</u>

9. INVESTMENTS

	<u>2006</u>	<u>2005</u>
Investment in a satellite corporation (33% participation)		
99 parts of Camp 257 S.E.C. at consolidation value	\$213 973	\$121 160
Advance bearing interest at 8.75% reimbursable primarily from net earnings realized by the satellite corporation	<u>185 921</u>	<u>310 921</u>
	<u>399 894</u>	<u>432 081</u>
Common capital stock in public corporations	<u>8 884 251</u>	<u>9 422 876</u>
Deeds of private corporations convertible into common capital stock		
Debenture, bearing interest at 8% and maturing in 2007		600 000
Debenture bearing interest at 8% and participating interest of 1% of earnings before taxes on every unpaid \$50 000 of this debenture, maturing in 2009		<u>450 000</u>
		<u>1 050 000</u>
Debenture, not convertible, bearing interest at the prime rate plus 6.5% adjusted to the anniversary date (2006: 12.5%) and maturing in 2011	<u>200 000</u>	
Government bonds bearing interest at 4.08% to 5.53%, maturing until 2040	<u>3 451 562</u>	
Private corporation bonds bearing interest at 4.27% to 5.31%, maturing until 2018	<u>545 176</u>	
Loans and advances, interest-free (2005: 10 %), maturing in 2009	<u>48 936</u> <u>13 529 819</u>	<u>140 248</u> <u>11 045 205</u>
Permanent loss in value on investments ¹	<u>(2 638 090)</u>	<u>(6 150 978)</u>
	<u>\$10 891 729</u>	<u>\$4 894 227</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 December 31, 2006

9. INVESTMENTS (cont'd)

1

	2006	2005
Permanent loss in value on investments, beginning of year	\$6 150 978	\$3 000 000
Permanent loss in value on fiscal year's investments		3 558 554
Permanent loss in value on investments sold	<u>(3 512 888)</u>	<u>(407 576)</u>
Permanent loss in value on investments, end of year	<u>\$2 638 090</u>	<u>\$6 150 978</u>

10. CAPITAL ASSETS

	2006			
	Cost	Contributions ¹	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	3 676 591	529 345	\$2 594 612	552 634
Modular homes	1 232 800	630 634	493 553	108 613
Furniture and fixtures	1 590 563	641 238	936 084	13 241
Computer hardware	670 213		650 391	19 822
Machinery and equipment	2 817 444	2 224 218	500 888	92 338
Vehicles	3 308 158	3 073 640	234 518	
	<u>\$19 962 372</u>	<u>\$13 694 649</u>	<u>\$5 410 046</u>	<u>\$857 677</u>

	2005			
	Cost	Contributions ¹	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	3 668 469	529 345	\$2 529 293	609 831
Modular homes	1 232 800	630 634	465 124	137 042
Furniture and fixtures	1 578 784	641 238	931 210	6 336
Computer hardware	666 883		622 858	44 025
Machinery and equipment	2 641 030	2 159 081	465 225	16 724
Vehicles	3 320 172	3 038 657	276 086	5 429
	<u>\$19 774 741</u>	<u>\$13 594 529</u>	<u>\$5 289 796</u>	<u>\$890 416</u>

- 1 The contributions received from the James Bay Energy Corporation, Hydro-Québec, Municipalité de Baie James and the federal government for capital assets are posted to reduce the cost of these contributions. In 2006, the Société collected \$228 775 in contributions (2005: \$198 683).

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**11. MINING PROPERTIES**

At December 31, 2006, the Société held interests in 10 mining properties located in the James Bay territory. The Société holds 357 mining titles in these different mining properties, which all dropped in value in the past and whose fair value could not be reasonably determined.

12. 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, 2007. At December 31, 2006, the interest rate was 6.0% (2005: 5.0%) and the balance was zero.

13. INSTALMENT ON LONG-TERM DEBT

	2006	2005
Debt repaid to the Gouvernement du Québec's Financing Fund, 6.84%		\$600 000

14. CAPITAL STOCK

	2006	2005
Authorized:		
10 000 000 common shares with a par value of \$10 each.		
Issued and paid up:		
6 982 500 common shares	\$69 825 000	\$69 825 000

Société shares belong to the public domain and are assigned to the Minister of Finance.

15. CASH FLOWS

The change in non-cash items related to operations is:

	2006	2005
Change in accounts receivable	\$(1 816 459)	\$335 254
Decrease in inventories	631	16 947
Change in prepaid expenses	16 354	(6 264)
Change in accounts payable	2 071 327	(106 509)
Increase in withholdings on contracts	79 021	134 592
	\$350 874	\$374 020

Cash and cash equivalents are:

	2006	2005
Cash on hand	\$1 475 155	\$474 670
Bank overdraft		(740 623)
	\$1 475 155	\$(265 953)

The interest paid during the year ended December 31, 2006 totalled \$17 164 (2005: \$105 998).

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 December 31, 2006

16. PENSION PLAN
Plan description

The Société offers its employees a defined-benefit retirement plan 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, 2005 and the next actuarial valuation will be produced on December 31, 2008.

Retirement obligations vis-à-vis accrued benefits are established using actuarial calculations based on management's most probable hypotheses and extrapolated using the most recent actuarial valuation.

Total cash payments

Total cash payments for the pension plan in 2006 comprise defined-benefit plan contributions in the amount of \$133 581 (2005: \$126 251).

Defined-benefit plan

The following table compares the defined-benefit obligation and fair value of plan assets for fiscal years ending December 31, 2006 and December 31, 2005:

	2006	2005
Obligation in the form of accrued benefits	\$(3 208 949)	\$(2 897 547)
Fair value of plan assets	3 180 643	2 793 194
Capitalization situation (deficit)	(28 306)	(104 353)
Unamortized net actuarial loss	221 314	301 480
Assets in the form of accrued benefits	<u>\$193 008</u>	<u>\$197 127</u>

Composition of plan assets

Category of assets	2006	2005
Debt-like securities	47.3%	47.5%
Debt instruments	52.7	52.5
Total	<u>100.0%</u>	<u>100.0%</u>

The average weighted percentages resulting from mortgages used to determine the defined-benefit obligation and the cost of Société benefits are:

	2006	2005
Defined-benefit obligations		
Actualization rate	5.0%	5.0%
Remuneration increase rate	3.5	3.5

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006**16. PENSION PLAN (cont'd)****Composition of plan assets**

	2006	2005
Benefit cost		
Actualization rate	5.0%	5.0%
Rate of return foreseen for plan assets	6.0	6.0
Remuneration increase rate	3.5	3,5

Other information related to the defined-benefit plan is:

	2006	2005
Annual expenses	\$137 699	\$115 399
Employer contributions	133 581	126 251
Employee contributions	57 890	61 010
Benefits paid	148 670	162 027

17. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the short term. The following chart shows the book value and fair value of the Société's long-term financial instruments:

	2006		2005	
	Book value	Fair value	Book value	Fair Value
Long-term investments:				
Common capital stock in public corporations	\$6 246 161	\$7 877 514 ²	\$3 702 013 ¹	\$3 667 403
Warrants in public corporations ³		165 000 ²		134 286
Titles convertible into common capital stock			669 885	669 885
Debenture, not convertible	200 000	234 951		
Government and private corporation bonds	3 996 738	4 013 806		
Loans and advances	48 936 ¹	47 970	90 248 ¹	88 748
that cannot be estimated ⁴	399 894		432 081	
Long-term debt (including short-term portion)			600 000	595 528

1 Category of investments whose book value is higher than their fair value; management plans to recover the book value.

2 Fair value of shares in public corporations is established on the basis of the rate at closing time the date of the balance sheet. The fair value of warrants is established on the basis of the rate at closing time the date of the shares' balance sheet of the issuing corporation to which they are attached, i.e. their intrinsic value.

3 Warrants in public corporations mature between May 6, 2007 and December 28, 2008.

4 The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of investment.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2006

18. 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 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.

19. 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 posted in this regard.

A former Société employee and his wife are suing a Société director for injury to reputation, loss of income and other damages for a total of \$800 000, \$750 000 solidarily with Sûreté du Québec. Société directors feel that this lawsuit is unfounded and, consequently, no provision has been posted 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 reclaiming 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 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 \$850 712. The value of the funds was \$4 720 019 at December 31, 2006. 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. MSV has committed to paying the Société a royalty of \$0.375 per tonne of processed ore and an additional royalty of \$0.25 per tonne if the net worth per tonne is higher than \$70.

The Société owns land requiring decommissioning. This work began in fiscal 2005 and the Société carried out work costing \$184 375, \$106 558 of which falls in this fiscal year (2005: \$77 817). At December 31, 2006, the balance of the provision representing the total cost of work for the coming fiscal year totalled \$87 160. This work includes a new study in 2007 to determine what to do next under the restoration plan.

The Société has signed five agreements with Transport Canada under the Airport Infrastructure Assistance Plan for a minimum of \$3 231 674 for repairs to the La Grande-Rivière airport and acquisition of moveable equipment. Three agreements, expiring in 2007, 2009 and 2011, envisage the Société committing to operating the said airport for a 10-year period. Should this condition not be respected, the Société will be obliged to reimburse an amount determined on the basis of the remaining duration of these agreements. The last two agreements, expiring in 2007, stipulate that the Société must operate the said airport for a 2-year and 4-year period. Should this condition not be respected, the Société might have to pay damages and interest to the Government of Canada in the amount of the total that it received under these two agreements. At December 31, 2006, the total eventual liability resulting under these five agreements is \$654 938.

20. COMMITMENTS

After a lease ending December 31, 2007, the Société has committed to paying \$38 841.

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.

21. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to comply with the presentation adopted in 2006.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**MANAGEMENTS' REPORT**

The financial statements of the Société de développement de la Baie-James were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program to provide reasonable assurance that assets are safeguarded and that accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the 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 Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Raymond Thibault, P. Eng.
Acting President-CEO

Matagami, March 9, 2007

AUDITORS' REPORT

To the Minister of Finance

I have audited the balance sheet of the Société de développement de la Baie-James as at December 31, 2006 and the statements of income and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Diane Bergeron, CA
Principle Director
for the Auditor General of Québec

Québec, March 9, 2007

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
(R.S.Q., c. S-10.002)

STATEMENT OF OPERATIONS AND SURPLUS
for the year ended March 31, 2007

	2007	2006
FINANCIAL MEASURES		
REVENUES		
Gouvernement du Québec subsidies (Note 3)	\$59 831 585	\$48 637 132
Interest on investments and loans	2 909 591	1 966 137
Amounts recovered on investment and assistance repayable under financial assistance programs (Note 4)	736 481	691 350
Loan guarantee fees (Note 5)	474 079	567 264
Tax credit management fees	1 463 953	1 460 648
Cinema management honoraria	111 150	
Other revenue	26 668	17 305
	<u>65 553 507</u>	<u>53 339 836</u>
EXPENSES		
Financial assistance programs (Note 6):		
Film and television productions	37 180 257	27 246 891
Music and miscellaneous	7 670 173	7 273 281
Book and edition	3 882 287	3 618 685
Art trades	3 079 394	3 040 554
International affairs	4 249 271	3 628 317
	<u>56 061 382</u>	<u>44 807 728</u>
Allowance for bad debts and losses (Note 7)	609 608	646 056
Administrative expenses (Note 8)	9 055 544	8 675 888
Interest on debts	92 101	128 497
	<u>65 818 635</u>	<u>54 258 169</u>
LOSS FROM MANAGEMENT OF FINANCIAL MEASURES	<u>(265 128)</u>	<u>(918 333)</u>
IMMOVEABLE CULTURAL PROPERTY		
REVENUES		
Gouvernement du Québec subsidies (Note 3)	2 402 685	2 695 255
Rent and other	1 570 343	1 618 679
Interest on short-term investments	56 019	40 798
	<u>4 029 047</u>	<u>4 354 732</u>
EXPENSES		
Operating and administrative expenses (Note 9)	3 219 595	3 287 121
Interest on debts	635 663	776 569
	<u>3 855 258</u>	<u>4 063 690</u>
GAIN FROM MANAGEMENT OF IMMOVEABLE CULTURAL PROPERTY	<u>173 789</u>	<u>291 042</u>
Amounts carried forward	<u>\$(91 339)</u>	<u>\$(627 291)</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESSTATEMENT OF OPERATIONS AND SURPLUS (cont'd)
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
Amounts brought forward	<u>\$(91 339)</u>	<u>\$(627 291)</u>
INVESTMENTS		
Investment income from limited partnerships	159 247	152 297
Interest costs on long-term Gouvernement du Québec advance	<u>159 247</u>	<u>21 803</u>
INVESTMENT INCOME	<u></u>	<u>130 494</u>
NET LOSS	(91 339)	(496 797)
SURPLUS, BEGINNING OF YEAR	<u>1 741 673</u>	<u>2 238 470</u>
SURPLUS, END OF YEAR	<u><u>\$1 650 334</u></u>	<u><u>\$1 741 673</u></u>

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Cash on hand	\$3 038 212	\$1 700 198
Term deposits (Note 10)	22 613 218	18 817 930
Loans and other financial assistance (Note 11)	17 566 031	20 803 963
Assistance repayable (Note 6)	1 104 350	1 016 882
Accounts receivable and accrued interest	663 522	601 508
Term notes, bearing interest at 10% since January 1, 2007	234 771	234 771
Gouvernement du Québec subsidies receivable	15 617 499	17 288 829
Prepaid expenses and advances on commitments	449 913	796 197
Investment in limited partnerships (Note 12)	15 535 647	15 528 697
Capital assets (Note 13)	16 439 680	16 636 760
TOTAL ASSETS	\$93 262 843	\$93 425 735
LIABILITIES		
Short-term borrowings (Note 14)	\$60 475	\$353 500
Accounts payable	2 819 143	2 365 251
Interest accrued on long-term advance from the Gouvernement du Québec	159 247	21 803
Accrued interest on long-term debts	252 976	229 598
Amounts payable under financial assistance programs	17 586 275	14 036 953
Cumulated provisions for losses on loan guarantees for business financing (Note 7)	724 053	734 938
Deferred revenue (Note 15)	17 343 204	20 188 228
Long-term Gouvernement du Québec advance (Note 16)	18 000 000	18 000 000
Long-term debts (Note 17)	15 167 136	16 253 791
	72 112 509	72 184 062
EQUITY		
Capital (Note 18)	19 500 000	19 500 000
Surplus	1 650 334	1 741 673
	21 150 334	21 241 673
TOTAL LIABILITIES AND EQUITY	\$93 262 843	\$93 425 735

The notes to the financial statements are an integral of these presents.

COMMITMENTS (Note 23)

CONTINGENCIES (Note 24)

On behalf of the Board of Directors,
Jean G. Chaput
Louise L. Bérubé

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Net loss	\$(91 339)	\$(496 797)
Adjustments to determine cash flow:		
Bad debts related to interim financing of tax credits	52 606	140 082
Provision for bad debts related to assistance repayable	23 603	243 143
Allowance for bad debts and losses	609 608	646 056
Loss on sale of capital assets		900
Amortization of capital assets	1 522 838	1 498 305
Revenue of investment in limited partnerships	(159 247)	(152 297)
	<u>1 958 069</u>	<u>1 879 392</u>
Change in non-cash items related to operating activities:		
Accounts receivable and accrued interest	(62 014)	(279 916)
Term notes		266 145
Gouvernement du Québec subsidies receivable	1 671 330	1 421 988
Prepaid expenses and advances on commitments	346 284	(293 949)
Accounts payable	212 621	993 729
Accrued interest on long-term Gouvernement du Québec advance	137 444	(62 639)
Interest accrued on the long-term debt	23 378	(163 020)
Amounts to pay under financial assistance programs	3 549 322	1 435 012
Deferred revenue	(2 897 630)	(1 332 351)
	<u>2 980 735</u>	<u>1 984 999</u>
Cash flows related to operating activities	<u>4 938 804</u>	<u>3 864 391</u>
INVESTMENT ACTIVITIES		
Loans and other financial assistance	(13 307 448)	(14 539 812)
Assistance repayable	(437 975)	(328 750)
Acquisition of capital assets	(1 084 487)	(1 059 755)
Distribution of share in performance of limited partnerships	152 297	453 682
Repayment of loans and other financing assistance	15 924 887	14 740 734
Recovery of assistance repayable	326 904	535 088
Cash flows related to investment activities	<u>1 574 178</u>	<u>(198 813)</u>
Amounts carried forward	<u>\$6 512 982</u>	<u>\$3 665 578</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESSTATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
Amounts brought forward	<u>\$6 512 982</u>	<u>\$3 665 578</u>
FINANCING ACTIVITIES		
Short-term borrowing	(293 025)	(1 930 174)
Long-term debt	712 286	2 665 042
Long-term debt repayment	<u>(1 798 941)</u>	<u>(1 585 478)</u>
Cash flows related to financing activities	<u>(1 379 680)</u>	<u>(850 610)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	5 133 302	2 814 968
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>20 518 128</u>	<u>17 703 160</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 19)	<u><u>\$25 651 430</u></u>	<u><u>\$20 518 128</u></u>

Capital asset acquisitions included in Accounts payable total \$241 271.

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2007

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.

The Société's objective is to promote and support, throughout 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, Canada and abroad. The Société is also responsible for recognizing works as Québec cinema in keeping 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

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

Loans and other financial assistance

Loans and other financial assistance include investments (in the form of stock purchases) the Société makes under its business financing programs. Loans or investments in projects are recorded at face value, plus accrued interest minus the cumulated provision for bad debts.

A loan is classified doubtful when the quality of the credit has deteriorated to the point that the Société is no longer reasonably certain of recovering all capital and interest. When a loan becomes doubtful, interest income ceases to be recognized and the Société reduces its participation by posting a cumulated provision for bad debts.

Loan guarantees appear as contingencies in the Société's financial statements. Loans resulting from the performance of loan guarantees related to a corporation's financing are posted to assets once the Société has approved the claim issued by the lending institution.

Cumulated provision and contribution for bad debts and losses

The cumulated provision for bad debts and losses is maintained at a level deemed adequate to absorb the bad debts and losses in the Société's portfolio. It is increased by the annual provision, which is posted to results, and reduced by write-offs. The cumulated provision for bad debts and losses includes specific provisions and a general provision.

Specific provisions are established for each loan. A loan's book value is rolled back to its estimated realizable value by discounting projected future cash flows.

The general provision is established for loan guarantees related to business financing. The amount of the general provision is estimated using past losses.

The contribution for losses is an amount cashed to absorb potential losses resulting from the loan guarantee for business financing. Should a contingency or loan guarantee become doubtful, a contribution is posted to revenue in the fiscal year in which the losses were disclosed.

Losses related to the guarantees granted under interim tax credit funding programs are refundable by the Gouvernement du Québec.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. MAJOR ACCOUNTING POLICIES (cont'd)

Assistance repayable and cumulated provision for bad debts

Assistance repayable is financial assistance for pre-defined repayment over two years to and 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 change in the cumulated provision is posted to results as program expenses.

Investment in limited partnerships

Investment in a limited partnership as a limited partner is recorded at acquisition cost. When the investment's value declines permanently, 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.

Capital assets

Capital assets are recorded at cost and amortized over their estimated service life in accordance with the straight-line method. The cost of restoration work includes materials and equipment, direct labour, indirect costs and interim financing costs during the work.

Restoration work	25 years
Major repairs	from 5 to 10 years
Office furniture	10 years
Equipment	5 years
Data processing equipment and software	from 4 to 7 years
Leasehold improvements	term of lease

Works of art and restoration work in progress are not depreciated.

Subsidies

Subsidies are posted to revenues when received or receivable if the amount can be reasonably estimated and it is reasonably certain that it will be received.

Specific subsidies for financial assistance programs and any other project are deferred and posted to results as revenue in conjunction with related commitments.

Revenue

Recovery of investment and assistance repayable related to a pre-defined 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 pre-defined repayment obligation, is posted to results as program expenses in the fiscal year in which these costs are authorized and when the beneficiary has met the eligibility criteria.

If the terms and conditions governing the financial assistance are not respected, the project cancellation is recorded in the fiscal year in which the facts were disclosed.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and term deposits maturing within three months of the date they were acquired.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. MAJOR ACCOUNTING POLICIES (cont'd)
Pension plans

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

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	<u>2007</u>	<u>2006</u>
SUBSIDIES GRANTED		
Financial measures		
Operations	\$3 264 639	\$3 615 300
Debt related to financial assistance programs	92 101	128 497
Financial assistance programs:		
Film and television productions	36 043 453	25 978 454
Music and miscellaneous	7 392 312	7 349 367
Books and edition	3 675 088	3 735 283
Art trades	2 958 314	3 108 314
International affairs	3 647 783	3 622 783
Specific assistance		1 037 262
Immovable cultural property		
Operations	1 108 900	1 108 900
Debts related to capital assets	<u>1 143 441</u>	<u>1 234 460</u>
	<u>59 326 031</u>	<u>50 918 620</u>
SUBSIDIES BROUGHT FORWARD AT THE BEGINNING OF THE YEAR		
Financial measures:		
Financial assistance programs:		
Film and television productions	4 682 347	5 950 785
Music and miscellaneous	346 242	203 156
Books and edition	275 152	105 041
Art trades	137 328	62 644
International affairs	1 520 629	1 739 206
Specific assistance	1 037 262	
Immovable cultural property		
Debts related to immoveables	<u>12 292 641</u>	<u>12 644 536</u>
	<u>20 291 601</u>	<u>20 705 368</u>
SUBSIDIES BROUGHT FORWARD AT YEAR-END		
Financial measures		
Financial assistance programs:		
Film and television productions	(3 435 543)	(4 682 347)
Music and miscellaneous	(104 039)	(346 242)
Books and edition	(56 953)	(275 152)
Art trades	(13 969)	(137 328)
International affairs	(593 299)	(1 520 629)
Specific assistance	(1 037 262)	(1 037 262)
Immovable cultural property		
Debts related to immoveables	<u>(12 142 297)</u>	<u>(12 292 641)</u>
	<u>(17 383 362)</u>	<u>(20 291 601)</u>
	<u>\$62 234 270</u>	<u>\$51 332 387</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES (cont'd)

The subsidies break down as:

	2007	2006
Financial measures	\$59 831 585	\$48 637 132
Immoveable cultural property	2 402 685	2 695 255
	<u>\$62 234 270</u>	<u>\$51 332 387</u>

4. AMOUNTS RECOVERED ON INVESTMENTS AND ASSISTANCE REPAYABLE UNDER FINANCIAL ASSISTANCE PROGRAMS

	2007			2006
	Investments	Assistance repayable *	Total	Total
Film and television productions	\$562 731	\$16 131	\$578 862	\$509 485
Multimedia		330	330	15 378
International affairs		157 289	157 289	166 487
	\$562 731	\$173 750	\$736 481	\$691 350

* These recoveries come from refundable aid not associated with a pre-defined repayable obligation.

5. LOAN GUARANTEE FEES

	2007	2006
Guarantee fees related to enterprise financing	\$233 882	\$304 650
Guarantee fees related to interim tax credit financing	209 928	209 451
Bad debts linked to interim tax credit financing	(52 606)	(140 082)
Deficit of fee income over management expenses (Note 15)	82 875	193 245
	<u>240 197</u>	<u>262 614</u>
	<u>\$474 079</u>	<u>\$567 264</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

6. FINANCIAL ASSISTANCE PROGRAMS AND ASSISTANCE REPAYABLE

	2007	
	Film and television productions	Music and miscellaneous
EXPENSES – FINANCIAL ASSISTANCE PROGRAMS		
Investments – selective assistance	\$33 894 297	
Investments – corporate assistance	500 000	
Subsidies	2 896 738	\$7 735 610
Assistance repayable unrelated to predefined repayment obligations	114 500	
Provision for bad debts		(9 342)
Cancellations and amounts recovered	(758 363)	(71 125)
Other	533 085	15 030
	<u>\$37 180 257</u>	<u>\$7 670 173</u>

	2007	
	Film and television productions	Music and miscellaneous
ASSETS – ASSISTANCE REPAYABLE		
Opening balance		\$545 306
Assistance repayable related to pre-defined repayment obligations granted in the year	\$65 000	
Amounts recovered		(66 066)
Write-offs		8 000
	<u>65 000</u>	<u>487 240</u>
Cumulated provision for bad debts		(56 750)
Closing balance	<u>\$65 000</u>	<u>\$430 490</u>

2007				2006
Books and edition	Art trades	International affairs	Total	Total
			\$33 894 297	\$24 380 877
			500 000	375 000
\$3 874 077	\$3 069 873	\$3 263 396	20 839 694	19 358 217
		833 525	948 025	907 250
(11 000)	(2 279)	47 133	24 512	243 143
	(6 000)	(80 076)	(915 564)	(1 249 650)
19 210	17 800	185 293	770 418	792 891
<u>\$3 882 287</u>	<u>\$3 079 394</u>	<u>\$4 249 271</u>	<u>\$56 061 382</u>	<u>\$44 807 728</u>

2007				2006
Books and edition	Art trades	International affairs	Total	Total
\$257 295	\$57 920	\$469 546	\$1 330 067	\$1 625 655
		372 975	437 975	328 750
(66 763)	(27 595)	(166 480)	(326 904)	(535 088)
		(65 296)	(57 296)	(89 250)
190 532	30 325	610 745	1 383 842	1 330 067
(118 425)	(8 645)	(95 672)	(279 492)	(313 185)
<u>\$72 107</u>	<u>\$21 680</u>	<u>\$515 073</u>	<u>\$1 104 350</u>	<u>\$1 016 882</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

7. CUMULATED PROVISION AND CONTRIBUTION FOR BAD DEBTS AND LOSSES

	2007	2006
Balance, beginning of year	<u>\$6 348 622</u>	<u>\$6 169 742</u>
Write-offs during the year:		
Loans granted by the Société	836 982	388 973
Loans resulting from the fulfilment of loan guarantees for business financing	<u>223 880</u>	<u>78 203</u>
	<u>1 060 862</u>	<u>467 176</u>
Allowance for the year:		
Loans granted by the Société	(235 682)	660 855
Loans resulting from the fulfilment of loan guarantees for business financing	856 175	72 179
Loan guarantees for business financing	<u>(10 885)</u>	<u>(86 978)</u>
	<u>609 608</u>	<u>646 056</u>
Balance, end of year	<u><u>\$5 897 368</u></u>	<u><u>\$6 348 622</u></u>

The accumulated allowance for bad debts and losses breaks down as:

	2007	2006
Loans granted by the Société (Note 11)	\$2 692 320	\$3 764 983
Loans resulting from the fulfilment of loan guarantees for business financing (Note 11)	<u>2 480 995</u>	<u>1 848 701</u>
	5 173 315	5 613 684
Loan guarantees for business financing *	<u>724 053</u>	<u>734 938</u>
	<u><u>\$5 897 368</u></u>	<u><u>\$6 348 622</u></u>

* Includes the \$375 000 contribution for losses on the loan guarantee for business financing.

8. ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	\$7 074 392	\$6 748 714
Fees	161 547	94 348
Travel, representation and conventions	185 555	157 134
Rent	663 413	597 370
Insurance	40 274	32 625
Stationery and office expenses	325 470	357 182
Advertising and promotion	123 823	225 218
Loss on sale of capital assets		900
Amortization of capital assets	420 463	380 905
Other expenses	<u>60 607</u>	<u>81 492</u>
	<u><u>\$9 055 544</u></u>	<u><u>\$8 675 888</u></u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. IMMOVEABLE CULTURAL PROPERTY - OPERATING AND ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	\$333 450	\$354 676
Fees	121 804	114 897
Travelling, representation and conventions	3 583	3 588
Taxes	395 974	415 998
Insurance	132 030	131 092
Electricity and heating	271 628	264 347
Maintenance and repairs	717 718	723 695
Stationery and office expenses	32 933	27 244
Amortization of capital assets	1 102 375	1 117 400
Other expenses	108 100	134 184
	<u>\$3 219 595</u>	<u>\$3 287 121</u>

10. TERM DEPOSITS

Term deposits comprise commercial promissory notes and a banker's acceptance. They are recorded at cost and bear interest at rates varying between 4.29% and 4.59%.

11. LOANS AND OTHER FINANCIAL ASSISTANCE

	2007			2006
	Amount	Allowance for losses (Note 7)	Net amount	Net amount
Common shares with voting rights	\$450 000		\$450 000	\$450 000
Loans and debentures	14 860 281	\$700 394	14 159 887	15 625 333
Doubtful loans and debentures				
Loans granted by the Société	2 325 068	1 991 926	333 142	308 447
Loans resulting from the fulfilment of guarantees for business financing	5 103 997	2 480 995	2 623 002	4 420 183
	\$22 739 346	\$5 173 315	\$17 566 031	\$20 803 963

All loans awarded by the Société bear interest at a fluctuating rate. The interest rate in effect for loans at March 31, 2007, calculated using a weighted average, is 8.10%, i.e. the prime rate plus 2.10%.

These loans, apart from doubtful loans, mature in fiscal years ending March 31:

2008	\$6 267 596
2009	608 951
2010	1 572 897
2011	1 028 213
2012	284 737
2013 and after	<u>4 397 493</u>
	<u>\$14 159 887</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2007

12. INVESTMENT IN LIMITED PARTNERSHIPS

	2007	2006
Participation, at devaluated cost, as a sponsor in a limited partnership whose activity is to invest in undertakings working in the field of culture. Under the agreement, the Société has been expired since October 24, 2006. *	\$7 400 000	\$7 400 000
Participation, at consolidation value, as a sponsor and sponsored party in a limited partnership which offers cultural undertakings specialized financing tools. The Société will continue to exist until March 31, 2009, unless it is dissolved before this time as per the agreement. **	8 135 647	8 128 697
	<u>\$15 535 647</u>	<u>\$15 528 697</u>

* The sponsors finalize the procedures designed to extend the duration of the limited partnership.

** Includes profits of \$295 112 (2006: \$21 803) and unrealized losses of \$135 865 (2006: \$130 494 unrealized profits).

13. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net amount	Net amount
Capital assets				
Restoration work	\$18 200 324	\$5 728 882	\$12 471 442	\$13 046 441
Major repairs*	4 957 108	2 673 672	2 283 436	1 958 087
Office furniture	601 231	382 509	218 722	245 720
Equipment	301 205	238 889	62 316	60 369
Data processing equipment	901 659	765 500	136 159	137 544
Leasehold improvements	512 114	319 014	193 100	218 557
Work of art	59 990		59 990	48 798
	25 533 631	10 108 466	15 425 165	15 715 516
Intangible assets				
Software**	2 144 189	1 129 674	1 014 515	921 244
	\$27 677 820	\$11 238 140	\$16 439 680	\$16 636 760

* Includes assets of \$309 861 recorded at cost and not amortized since they were not operational at March 31, 2007.

** Includes assets of \$49 900 recorded at cost and not amortized since they were not operational at March 31, 2007.

14. CREDIT LINES AND SHORT-TERM BORROWING

The Société has a \$2M credit line authorized by Gouvernement du Québec Order-in-Council with a financial institution. This credit line bears interest at the prime rate for a term not to exceed one year.

The Société is authorized by Gouvernement du Québec order-in-council to contract short-term borrowings or use its credit line for an amount not to exceed \$4.2M to keep buildings belonging to its housing stock in good condition. The borrowings may be contracted with a financial institution or the Gouvernement du Québec's Financing Fund and bear interest at a variable or fixed rate, without exceeding the prime rate, for a term that may not exceed one year.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
15. DEFERRED REVENUE

	2007	2006
Interim financing of tax credits (Note 24)		
Opening balance	\$(393 040)	\$(382 843)
Net amount of write-offs / receipts (disbursements) on files in default	50 748	183 048
Deficiency of fee earnings over management expenses	(82 875)	(193 245)
Closing balance	(425 167)	(393 040)
Deferred subsidies (Note 3)	17 383 362	20 291 601
Other deferred revenue	385 009	289 667
	<u>\$17 343 204</u>	<u>\$20 188 228</u>

16. LONG-TERM GOUVERNEMENT DU QUÉBEC ADVANCES

	2007	2006
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>

* The Société is waiting for the Ministère des Finances' decision to extend the order-in-council authorizing an advance for investment in a limited partnership (Note 12).

17. LONG-TERM DEBTS

	2007	2006
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.771%, repayable in annual instalments of \$342 398, until June 3, 2014 and a final instalment of \$2 396 786 on June 3, 2014 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.	\$4 793 573	\$5 135 971
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.617%, repayable in annual instalments of \$416 308 until December 1, 2015 and a final instalment of \$2 081 538 on December 1, 2015 whose payment (capital and interest) is guaranteed by a a movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan.	5 411 998	5 828 306
Amounts carried forward	<u>\$10 205 571</u>	<u>\$10 964 277</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
17. LONG-TERM DEBTS (cont'd)

	2007	2006
Amounts brought forward	\$10 205 571	\$10 964 277
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.654%, repayable in annual instalments of \$790 718 until October 1, 2008 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.	1 581 437	2 372 154
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.837%, repayable in annual instalments of \$41 631 until October 1, 2013 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.	291 415	333 046
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.323%, repayable in annual instalments of \$172 288 until October 1, 2012 and a final instalment of \$1 550 588 on October 1, 2012 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	2 412 026	2 584 314
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.592%, repayable in annual instalments of \$35 599 until March 31, 2016 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	320 393	
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.463%, repayable in annual instalments of \$35 629 until November 14, 2016 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	356 294	
	<u>\$15 167 136</u>	<u>\$16 253 791</u>

The amounts of capital instalments to pay on long-term debts in coming fiscal years are:

2008	\$1 834 571
2009	1 834 571
2010	1 043 853
2011	1 043 853
2012	1 043 853
2013 to 2015	8 366 435
	<u>\$15 167 136</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.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
19. CASH FLOWS

- a) The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2007	2006
Cash on hand	\$3 038 212	\$1 700 198
Term deposits	22 613 218	18 817 930
	<u>\$25 651 430</u>	<u>\$20 518 128</u>

Interest paid by the Société in the fiscal year totalled \$726 508 (2006: \$1 152 207).

Interest encashed by the Société in the fiscal year totalled \$2 916 119 (2006: \$1 939 456)

20. FUTURE FRINGE BENEFITS
Pension plans

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan for Senior Officials (PPSO) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$311 028 (2006: \$335 308). Its liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave and vacation time

	Sick leave	2007 Vacation time	Total	2006 Total
Balance , beginning of year	\$113 520	\$681 101	\$794 621	\$778 688
Annual expenses	174 576	558 894	733 470	658 411
Benefits paid	(188 320)	(515 790)	(704 110)	(642 478)
Balance, end of year	<u>\$99 776</u>	<u>\$724 205</u>	<u>\$823 981</u>	<u>\$794 621</u>

21. FINANCIAL INSTRUMENTS
Credit risk

The Société's exposure to credit risk corresponds to the financial assets' book value. The Société evaluates these assets on an ongoing basis and records a provision for losses when accounts are deemed irrecoverable.

Fair value of financial instruments

The fair value of cash, term deposits, assistance to be repaid, receivables, short-term notes, bank borrowings, accounts payable and accruals, accrued interest and amounts to be paid under financial assistance programs equals the book value, given that these are short-term items.

For 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.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
21. FINANCIAL INSTRUMENTS (cont'd)
Fair value of financial instruments (cont'd)

The fair value of Gouvernement du Québec subsidies receivable cannot be assessed, given the absence of a market for this type of financial investment.

The fair value of the long-term debts of \$15.2M (2006: \$16.3M) of the Gouvernement du Québec's Financing Fund was \$15.6M (2006: \$16.5M) based on discounting cash flows at market rates for similar issues with the same remaining service life.

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not 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.

23. COMMITMENTS

- a) The unpaid balance on commitments for loans as at March 31, 2007 totalled \$9.5M (2006: \$11.6M).
- b) The Société is committed to paying \$161 500 for a contract for the restoration of a building until March 31, 2008.
- c) The minimum commitments under an operating lease for Société offices are:

2008	\$632 069
2009	632 069
2010	<u>474 052</u>
	<u><u>\$1 738 190</u></u>

24. CONTINGENCIES

- a) The Société guarantees the repayment of loans or debts contracted by firms from financial institutions for business financing and for interim funding of tax credits. The maximum amounts guaranteed are:

	<u>2007</u>	<u>2006</u>
Business financing *	\$9 558 122	\$10 127 751
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>10 595 899</u>	<u>12 922 360</u>
	<u><u>\$20 154 021</u></u>	<u><u>\$23 050 111</u></u>

* The accumulated allowance for losses on these loan guarantees is disclosed in Note 7 of the financial statements.

** The amounts to be recovered on files that were outstanding at March 31, 2007 are \$3 777 324. Eventual losses based on the historic rate of loss for the past 5 years are estimated at \$240 653. All losses related to guarantees under this program will be reimbursed by the Gouvernement du Québec.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

24. CONTINGENCIES (cont'd)

- b) Following the adoption of the Pay Equity Act on November 21, 1996, the Société had to assess its different job categories. This fiscal year, the Société paid amounts owing to unionized employees. Evaluation has begun for non-unionized employees and will continue in the coming fiscal year. On the date the financial statements were prepared, the Société was unable to assess the amount it might have to pay, given that the process was not yet completed. Consequently, no amount was posted in the financial statements.
- c) 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.

MANAGEMENT'S REPORT

The financial statements of the Société de développement des entreprises culturelles du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

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

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

Jean G. Chaput
President

Jean Valois
Secretary

Montréal, June 1, 2007

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de développement des entreprises culturelles as at March 31, 2007 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 1, 2007

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
(R.S.Q., c. S-11.0102)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007
(in thousands of dollars)

	2007 (12 months)	2006 (15 months)
REVENUES		
Government of Canada transfers		
- Gasoline tax (Note 6)	104 408	
Additional vehicle registration fees (Note 6)	44 653	34 360
Interest on accounts receivable and investments	14 557	2 942
Other interest charges	54	21
	<u>163 672</u>	<u>37 323</u>
EXPENSES		
Drinking water, wastewater and local public works program	147 469	
Rural municipal infrastructure fund (FIMR)	49	
Repayment of SAAQ computer costs		1 261
Administrative fees (Note 3)	1 333	664
Travelling costs	2	
Interest on accounts payable	48	60
	<u>148 901</u>	<u>1 985</u>
EXCESS REVENUES OVER EXPENSES	14 771	35 338
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>35 338</u>	<u> </u>
CUMULATED SURPLUS, END OF YEAR	<u><u>50 109</u></u>	<u><u>35 338</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash	496	3
Short-term investments (Note 4)	434 499	234 513
Accounts receivable and accrued interest (Note 5)	<u>14 443</u>	<u>63 199</u>
	<u>449 438</u>	<u>297 715</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9 133	1 985
Deferred revenue (Note 6)	<u>390 196</u>	<u>260 392</u>
	399 329	262 377
CUMULATED SURPLUS (Note 7)	<u>50 109</u>	<u>35 338</u>
	<u>449 438</u>	<u>297 715</u>
COMMITMENTS (Note 8)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Mario Albert, President
Marc Grandisson, Secretary

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de financement des infrastructures locales du Québec is a legal person and agent of the State established under the Act respecting the Société de financement des infrastructures locales du Québec (R.S.Q., c. S-11.0102) on December 17, 2004 to provide financial assistance to municipal bodies for infrastructure projects relating to drinking water, waste water, local roads and public transit and for infrastructure projects having an economic, urban or regional impact.

The Society's revenue comes from Government of Canada transfers and contributions, additional vehicle registration fees paid by the owners of certain motor vehicles, and a Gouvernement du Québec contribution. The additional vehicle registration fees are collected for the Société by the Société de l'assurance automobile du Québec (SAAQ).

2. ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the Société's cash flows during the year.

Revenue

The Société applies the deferral method to report Government of Canada transfers. Once appropriated, they are posted to revenue for the fiscal year in which the related charges are incurred. Unappropriated transfers are posted to revenue when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Additional vehicle registration fees are posted to revenue based on the period covered by the fees payable.

Other revenue is reported in the fiscal year in which the operations or facts from which it results occurred.

Expenses

Expenses include the cost of goods and services obtained during the fiscal year.

Financial assistance paid to municipal bodies is reported as an expense when the facts giving rise to it occur, to the extent that it is authorized and that the beneficiaries have met eligibility criteria, where applicable.

Short-term investments

Short-term investments are posted at cost or net realization value, whichever is less.

3. ADMINISTRATIVE FEES

	2007	2006
Administrative fees	818	
SAAQ collection fees – Additional vehicle registration fees	515	664
	<u>1 333</u>	<u>664</u>

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

4. SHORT-TERM INVESTMENTS

	<u>2007</u>	<u>2006</u>
Québec discount notes, maturing from April to May 2007	121 138	234 513
T-bills, maturing from April to June 2007	302 761	
Deposit certificate, 4.25%, maturing in April 2007	<u>10 600</u>	
	<u>434 499</u>	<u>234 513</u>

5. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	<u>2007</u>	<u>2006</u>
Additional vehicle registration fees receivable	13 817	62 191
Accrued interest	<u>626</u>	<u>1 008</u>
	<u>14 443</u>	<u>63 199</u>

6. DEFERRED REVENUE

Deferred revenue refers to amounts received or receivable under the agreement between Canada and Québec regarding transfer of the revenues of a portion of the federal excise tax on gasoline and an additional amount under Chapter 49 of the Statutes of Canada (2005) authorizing payments in the context of assistance measures linked to the cost of energy, home energy consumption and the mass transit infrastructure and amending other legislation as a result in order to fund municipal and local infrastructures from a sustainable development viewpoint. They also refer to additional vehicle registration fees. Variations over the fiscal year in the balance of deferred revenue are:

	<u>2007</u>	<u>2006</u>
Government of Canada transfers		
Balance, beginning of year	232 561	
Government of Canada transfers	232 561	232 561
Transfers posted to revenue for the fiscal year	<u>(104 408)</u>	
Balance, end of year	<u>360 714</u>	<u>232 561</u>
Additional vehicle registration fees		
Balance, beginning of year	27 831	
Fees collected	46 304	62 191
Fees posted to revenue for the fiscal year	<u>(44 653)</u>	<u>(34 360)</u>
Balance, end of year	<u>29 482</u>	<u>27 831</u>
Deferred revenue	<u>390 196</u>	<u>260 392</u>

7. CUMULATED SURPLUS

As stipulated in section 33 of the Act respecting the Société de financement des infrastructures locales du Québec (R.S.Q., c. S-11.0102), the monies received by the Société must be allocated to the payment of its obligations. The Société retains any surpluses.

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

8. COMMITMENTS

Drinking water, wastewater and local public works program

The Société is committed to paying financial assistance to various municipal organizations under the Drinking water, wastewater and local public works program in the amount of \$122 233 M at March 31, 2007 (2006: 0). Amounts payable for the next four fiscal years are:

2007-2008	38 569
2008-2009	31 234
2009-2010	45 206
2010-2011	7 224

Rural municipal infrastructure fund (FIMR) and Québec-municipalities infrastructure program (PIQM)

The Minister of Municipal Affairs and the Regions authorized the Société to pay financial assistance to various municipal organizations under the FIMR and PIQM respectively in the amount of \$80 685 M at March 31, 2007 (2006: \$8 263 M) and \$98 971 M at March 31, 2007 (2006: \$45 075 M). Amounts payable for the next five fiscal years are under commitments made by the Société, and conditional on appropriations voted by the National Assembly, total:

	FIMR	PIQM
2007-2008	805	1 602
2008-2009	5 090	7 703
2009-2010	6 248	8 133
2010-2011	6 771	8 587
2011-2012	7 173	9 067
2012-2013 and thereafter	54 598	63 879

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société carried out no 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

Fair value

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

Interest-rate risk

The Société manages its investment portfolio in accordance with its cash requirements and to optimize its interest income.

The interest rate in effect on short-term investments for the fiscal year varies from 3.68% to 4.26% (2006: 3.25% to 3.55%).

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société de financement des infrastructures locales du Québec (SOFIL) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

The Société's management recognizes that it is responsible for conducting its affairs in accordance with the statutes, regulations and policies governing it.

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

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

Mario Albert
President of the Board of Directors

Marc Grandisson
Secretary of the Boards of Directors

Québec, July 20 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société de financement des infrastructures locales du Québec as at March 31, 2007 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 20, 2007

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
(R.S.Q., c. S-11.03)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended August 31

	2006	2005
REVENUES		
Gouvernement du Québec operating subsidy	\$2 777 800	\$2 747 800
Other Gouvernement du Québec subsidies (Note 3)	16 192 791	15 925 903
Auditorium rentals	3 314 096	3 512 509
Ancillary operations	3 574 976	3 714 682
Rental of office and commercial space	1 818 553	1 754 759
Royalties and ticket revenue	2 084 838	2 072 884
Sponsorships and publicity	624 038	659 434
Arts accessibility program (Note 4)	34 030	47 623
Theatrical services	19 648	31 068
Financial revenue	246 875	177 223
Other revenue	935 364	847 822
	<u>31 623 009</u>	<u>31 491 707</u>
EXPENSES		
Salaries and fringe benefits	6 335 121	6 232 732
Building maintenance and repair	4 232 186	3 377 467
Electricity and heating	2 164 350	2 030 502
Equipment purchases, maintenance and repair	531 667	411 664
Professional services	596 424	545 312
Communications	1 007 081	1 023 978
Show operating costs	583 633	584 428
General administration	187 054	165 952
Insurance and taxes	7 367 440	7 672 878
Financial expenses	3 855 009	4 171 861
Amortization of capital assets	4 372 702	4 035 941
Arts accessibility program (Note 4)	201 802	303 122
Other expenses	174 819	223 332
Cost of customer services	1 139 889	1 332 612
	<u>32 749 177</u>	<u>32 111 781</u>
Costs recovered from customers	<u>(1 139 889)</u>	<u>(1 332 612)</u>
	<u>31 609 288</u>	<u>30 779 169</u>
SURPLUS FOR THE YEAR	13 721	712 538
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>2 071 795</u>	<u>1 359 257</u>
CUMULATED SURPLUS, END OF YEAR (Note 5)	<u>\$2 085 516</u>	<u>\$2 071 795</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALBALANCE SHEET
as at August 31

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$5 410 966	\$5 309 461
Short-term investment		1 496 492
Accounts receivable	922 394	679 433
Debt receivable (Note 6)	10 224	9 640
Gouvernement du Québec subsidies receivable (Note 7)	6 794 431	15 810 458
Bar inventory	45 526	28 056
Costs deferred to the arts accessibility program	67 907	3 000
Prepaid expenses	131 920	62 978
	<u>13 383 368</u>	<u>23 399 518</u>
Funds reserved for construction and retrofitting	2 241 290	1 297 681
Debt receivable (Note 6)	68 378	78 602
Capital assets (Note 8)	60 166 752	62 216 374
Gouvernement du Québec subsidies receivable (Note 7)	61 575 635	55 883 639
Deferred discount and issuing costs on the long-term debt	346 620	352 853
	<u>\$137 782 043</u>	<u>\$143 228 667</u>
LIABILITIES		
Current liabilities		
Deposits - Rental and ticket sales	\$2 353 461	\$3 314 588
Accounts payable and accrued liabilities	3 313 136	3 150 151
Accrued interest payable	837 386	1 000 874
Short-term borrowings (Note 9)	6 998 824	5 632 952
Instalments on the long-term debt (Note 10)	5 843 479	14 738 405
	<u>19 346 286</u>	<u>27 836 970</u>
Deferred Gouvernement du Québec subsidies (Note 11)	53 355 754	55 344 934
Long-term debt (Note 10)	55 385 745	50 366 226
	<u>128 087 785</u>	<u>133 548 130</u>
EQUITY		
Contributed surplus (Note 12)	7 608 742	7 608 742
Cumulated surplus (Note 5)	2 085 516	2 071 795
	<u>9 694 258</u>	<u>9 680 537</u>
	<u>\$137 782 043</u>	<u>\$143 228 667</u>
COMMITMENTS (Note 16)		
CONTINGENCIES (Note 17)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
François Macerola
Michel Tourangeau

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
STATEMENT OF CASH FLOWS
 for the year ended August 31

	2006	2005
OPERATING ACTIVITIES		
Surplus for the year	\$13 721	\$712 538
Adjustments for:		
Amortization of capital assets	4 372 702	4 035 941
Amortization of deferred		
Gouvernement du Québec subsidies	(5 287 506)	(4 523 182)
Amortization of premium, discounts and		
commissions on long-term debt	78 882	80 821
	<u>(822 201)</u>	<u>306 118</u>
Change in non-cash items of the Working Capital Fund:		
Accounts receivable	(242 961)	(230 593)
Gouvernement du Québec subsidies receivable	121 101	99 589
Bar inventory	(17 470)	264
Claim receivable	9 640	9 089
Costs deferred to the arts accessibility program	(64 907)	88 991
Prepaid expenses	(68 942)	(12 187)
Rental deposits and ticket sales	(961 127)	1 514 819
Accounts payable and accrued liabilities	162 985	(680 294)
Accrued interest payable	(163 488)	(54 717)
	<u>(1 225 169)</u>	<u>734 961</u>
Cash flows related to operating activities	<u>(2 047 370)</u>	<u>1 041 079</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	<u>(2 323 080)</u>	<u>(1 589 778)</u>
Cash flows related to investment activities	<u>(2 323 080)</u>	<u>(1 589 778)</u>
FINANCING ACTIVITIES		
Change in funds reserved for construction and retrofitting	(943 609)	(1 004 407)
Long-term debt issuing	2 553 200	5 321 600
Decrease in long-term debt	(6 501 257)	(9 315 622)
Short-term borrowings	1 365 872	(2 075 713)
Revenue from Gouvernement du Québec subsidies	6 501 257	9 315 622
Cash flows from financing activities	<u>2 975 463</u>	<u>2 241 480</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>(1 394 987)</u>	<u>1 692 781</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6 805 953</u>	<u>5 113 172</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	<u>\$5 410 966</u>	<u>\$6 805 953</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS**August 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person under 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) 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

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

Subsidy recording*Subsidies*

Subsidies are posted to revenues for the fiscal year in which the related expenses were incurred.

Subsidies receivable for capital assets and their maintenance are posted in the fiscal year in which the Société carries out the work or obtains the financing entitling it to these subsidies.

Other revenue

Revenue from service delivery and sales is posted when the following conditions have been met:

- There is convincing evidence that an agreement exists;
- Delivery has occurred or the service has been rendered;
- The selling price has been determined or can be determined;
- Recovery is reasonably certain.

Costs deferred to the arts accessibility program

All deferred costs are accumulated in the balance sheet the fiscal year in which they are incurred and are charged to results for the period the performance runs in proportion to performances given during the year.

Bar inventory

Bar inventory is valued at cost (calculated using the first in, first out (FIFO) method) or net realizable value.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**2. ACCOUNTING POLICIES (cont'd)****Capital assets**

Capital assets are valued at cost, which includes materials, direct labour, direct costs and financing costs during the work. Capital assets are amortized over their service life in accordance with the straight-line method as follows:

Capital assets:

Building	40 years
Building improvements and major repairs	10 years
Stage equipment and accessories	10 years
Office furniture and equipment	10 years
Other equipment	5 years
Computer hardware	3 years

Intangible assets:

Computer software	3 years

Deferred premium, discount and issuing costs on the long-term debt

Premium, discount and issuing costs on the long-term debt are deferred and amortized according to the straight-line method over the remaining term of the borrowings.

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 inter-enterprise 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

	2006	2005
Interest on bonds and borrowings on notes	\$3 748 059	\$4 041 559
Compensation in lieu of taxes	7 157 226	7 361 162
Amortization of deferred Gouvernement du Québec subsidies	5 287 506	4 523 182
	<u>\$16 192 791</u>	<u>\$15 925 903</u>

4. ARTS ACCESSIBILITY PROGRAM

The cumulated surplus is slated essentially for the implementation of a series of shows in partnership with guest programmers. The net contribution to the arts accessibility program is as follows:

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**4. ARTS ACCESSIBILITY PROGRAM**

	2006	2005
Revenues		
Ticket sales	\$27 737	\$36 309
Sponsorship	1 800	
Revenue from ancillary services	4 493	11 314
	<u>34 030</u>	<u>47 623</u>
Expenses		
Wages and fringe benefits	21 388	24 101
Artists' honoraria, artistic direction and programmer support	151 570	225 314
Research	7 500	20 591
Activities		21 503
Operating costs	20 599	6 137
Administrative costs	745	
Equipment purchase and rental		5 476
	<u>201 802</u>	<u>303 122</u>
Net contribution	<u>\$(167 772)</u>	<u>\$(255 499)</u>

5. CUMULATED SURPLUS

The Société uses its cumulated surplus by investing in public development projects and diversifying its programming to increase access to the arts, in conjunction with its resident organizations and other partners.

6. DEBT RECEIVABLE

	2006	2005
Debt receivable, at the rate of 5.9% repayable in monthly payments of \$1 216, renewable in February 2007 and maturing in February 2013	\$78 602	\$88 242
Cash receivable in the coming fiscal year	<u>(10 224)</u>	<u>(9 640)</u>
	<u>\$68 378</u>	<u>\$78 602</u>

The amount of cash receivable in the coming 5 fiscal years is:

2007	\$10 224
2008	10 844
2009	11 502
2010	12 199
2011	12 939

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, short-term borrowings and reimbursement of capital on the long-term debt in the next fiscal year.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 August 31, 2006

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)

The long-term portion represents the Gouvernement du Québec's total commitments for capital assets and their maintenance minus capital repayments on the long-term debt paid and payable in the next fiscal year.

Subsidies are cashable in keeping with the related long-term debt payments.

8. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Capital assets			
Land	\$7 608 742		\$7 608 742
Building	100 939 423	\$59 383 794	41 555 629
Building improvements and major repairs	70 954 745	61 825 800	9 128 945
Stage equipment and accessories	2 542 934	1 902 185	640 749
Office furniture and equipment	284 047	136 268	147 779
Other equipment	1 233 902	1 005 828	228 074
Computer hardware	738 849	642 021	96 828
	<u>184 302 642</u>	<u>124 895 896</u>	<u>59 406 746</u>
			61 046 529
Intangible assets			
Computer software	<u>1 647 718</u>	<u>887 712</u>	<u>760 006</u>
	<u>\$185 950 360</u>	<u>\$125 783 608</u>	<u>\$60 166 752</u>
			<u>\$62 216 374</u>

9. SHORT-TERM BORROWINGS

The Gouvernement du Québec has authorized the Société to contract the following borrowings for capital asset maintenance:

	2006	2005
Term note renewable at September 30, 2006, authorized by order-in-council for a maximum of \$2 835 200 bearing interest at a rate of 4.38%	\$2 328 310	\$2 174 042
Term note renewable at September 30, 2006, authorized by order-in-council for a maximum of \$2 843 300 bearing interest at a rate of 4.38%	2 167 991	1 221 548
Term note renewable at September 30, 2006, authorized by order-in-council for a maximum of \$2 834 300 bearing interest at a rate of 4.38%	1 512 916	
Term note renewable at September 30, 2006, authorized by order-in-council for a maximum of \$2 832 800 bearing interest at a rate of 4.38%	989 607	
Term note renewable bearing interest at a rate of 2.71%		2 237 362
	<u>\$6 998 824</u>	<u>\$5 632 952</u>

The maximum amount authorized by the Gouvernement du Québec for short-term borrowings related to assets maintenance is \$11 345 600.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**9. SHORT-TERM BORROWINGS** (cont'd)

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

	2006	2005
Bonds guaranteed by the Gouvernement du Québec:		
- 11.25%, maturing February 16, 2008	\$1 500 000	\$1 500 000
- 6.25% to sinking fund		815 000
	<u>1 500 000</u>	<u>2 315 000</u>
Borrowings on notes from the Gouvernement du Québec's Financing Fund guaranteed by moveable hypothecs without divestment:		
- 5.825% (effective rate of 5.954%), repayable in annual principal instalments of \$2 541 837 up to December 1, 2009 and one instalment of \$17 792 858 on December 1, 2010	27 960 206	30 502 042
- 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	11 521 273	12 407 525
- 4.515% (effective rate of 4.705%), repayable in annual principal instalments of \$483 450 up to October 1, 2007	966 900	1 450 350
- 5.481% (effective rate of 5.648%), repayable in annual principal instalments of \$93 451 up to October 1, 2012	654 160	747 612
- 4.237% (effective rate of 4.413%), repayable in annual principal instalments of \$271 321 up to December 1, 2010	1 356 605	1 620 600
- 4.6172% (effective rate of 4.7736%), repayable in annual principal instalments of \$183 686 up to December 1, 2015	1 836 858	2 026 667
- 4.622% (effective rate of 4.774%), repayable in annual principal instalments of \$509 834 up to March 31, 2016	5 098 337	5 568 913
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$88 625 up to October 1, 2013	709 001	797 626
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$255 975 up to October 1, 2013	2 047 804	2 303 780
- 4.937% (effective rate of 5.064%), repayable in annual principal instalments of \$357 634 up to July 16, 2020	5 006 882	5 364 516
- 4.2739% (effective rate of 4.3922%), repayable in annual principal instalments of \$171 413 up to December 2014 and one instalment of \$1 028 479 on December 1, 2015	2 571 198	
	<u>61 229 224</u>	<u>65 104 631</u>
Payments due in the next fiscal year	<u>5 843 479</u>	<u>14 738 405</u>
	<u>\$55 385 745</u>	<u>\$50 366 226</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**10. LONG-TERM DEBT** (cont'd)

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:

2007	\$5 843 479
2008	7 343 479
2009	5 360 029
2010	5 360 029
2011	20 611 050

11. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2006	2005
Balance, beginning of year	\$55 344 934	\$57 523 964
Gouvernement du Québec commitments regarding capital assets and their maintenance	3 225 677	2 301 236
Long-term debt issuing costs	72 649	42 916
Amortization of deferred subsidies	(5 287 506)	(4 523 182)
Balance, end of year	<u>\$53 355 754</u>	<u>\$55 344 934</u>

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:

	2006	2005
Cash on hand	\$5 410 966	\$5 309 461
Short-term investment	<u>1 496 492</u>	<u>1 496 492</u>
	<u>\$5 410 966</u>	<u>\$6 805 953</u>

Interest paid to the Société during the year amounts to \$3 939 614 (2005: \$4 145 759).

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 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 \$766 079 (2005: \$746 666) with a related company. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**15. FUTURE FRINGE BENEFITS****Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (RRPE) or Upper Management Retirement Plan (RRAS). These are inter-enterprise defined-benefit plans and include guaranteed payments on 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 totalled \$250 809 (2005: \$230 368). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time included in accounts payable and accrued liability

	2006			2005
	Sick leave	Vacation leave	Total	Total
Balance, beginning of year	\$207 571	\$296 598	\$504 169	\$496 546
Annual expenses	92 101	247 114	339 215	386 472
Benefits paid	(89 730)	(247 882)	(337 612)	(378 849)
Balance, end of year	<u>\$209 942</u>	<u>\$295 830</u>	<u>\$505 772</u>	<u>\$504 169</u>

16. COMMITMENTS

The Société is committed to long-term contracts for goods and services, maturing on various dates up to 2022 and to construction work on capital assets.

Minimum future payments are:

2007	\$950 836
2008	267 624
2009	125 526
2010	48 023
2011	23 806
2012 and thereafter	<u>109 697</u>
	<u>\$1 525 512</u>

17. CONTINGENCIES

The Société is party to various claims and legal proceedings that have cropped up in the normal course of business. It is unable to predict the outcome of these disputes but, to the extent that it can be determined, these financial statements include provisions to this effect.

18. ESTABLISHMENT OF A FOUNDATION

In the coming fiscal year, the Société will establish a foundation to contribute financially to projects and activities falling under Place des Arts' artistic and cultural mission. The Société plans to contribute \$1 500 000 to the foundation from its cumulated surplus. It is waiting for authorization from the Gouvernement du Québec to transfer these funds.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006

19. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

At August 31, 2006, the fair value of the long-term debt of \$61 229 224 (2005: \$65 104 631) was \$64 478 582 (2005: \$70 362 721), given the discounting of cash flows at the market rate for securities with a similar maturity date and interest rate.

The fair value of short-term borrowings at August 31, 2006 in the amount of \$6 998 824 (2005: \$5 632 952) 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 \$68 370 066, cannot be estimated, given the absence of a market for this type of financial instrument.

Other assets and liabilities

The fair value of the cash, short-term investment, accounts receivable, deposits, rentals and ticket sales and accounts payable and accrued liabilities equals their book value, given that they mature in the short term.

MANAGEMENT'S REPORT

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

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

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

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

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

Marie Lavigne
Director General

Michel Grégoire, CA
Director, Finances and Administrative Services

Montréal, November 10, 2006

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de la Place des Arts de Montréal as at August 31, 2006 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 10, 2006

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
(R.S.Q., c. S-11.011)

STATEMENT OF INCOME
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Fees collected on vehicle registration and driver's licence transactions	95 245	90 193
Road checks (Note 3)	57 161	57 547
Ministère des Transports contribution to program financing (Note 4)	10 198	8 370
Fees collected for management of unpaid fines (Note 5)	6 081	6 161
Revenues, excluding interest (Note 6)	2 176	2 645
Other	<u>958</u>	<u>1 560</u>
	<u>171 819</u>	<u>166 476</u>
EXPENSES		
Administrative expenses, amortization, etc. (Note 7)		
Highway system access management	133 717	135 844
Road checks	57 161	57 547
Programs financed by the Ministère des Transports (Note 8)	10 198	8 370
Management of unpaid fines	<u>6 081</u>	<u>6 161</u>
	207 157	207 922
Share in Tribunal administratif du Québec financing (Note 9)	<u>523</u>	<u>525</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>207 680</u>	<u>208 447</u>
	<u>(35 861)</u>	<u>(41 971)</u>

STATEMENT OF CUMULATED DEFICIT
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	(70 916)	(28 945)
Deficiency of revenue over expenditure	<u>(35 861)</u>	<u>(41 971)</u>
BALANCE, END OF YEAR	<u>(106 777)</u>	<u>(70 916)</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**BALANCE SHEET**

as at December 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand		2 464
Accounts receivable	25 257	22 515
Insurance Fund receivable, bearing interest at the credit line rate	98 248	169 653
Capital assets (Note 10)	49 295	44 764
Intangible assets (Note 11)	<u>65 133</u>	<u>74 928</u>
	<u>237 933</u>	<u>314 324</u>
LIABILITIES AND CUMULATED DEFICIT		
LIABILITIES		
Cheques issued in excess of bank balances	6 820	
Caisse de dépôt et placement du Québec credit line (Note 12)	108 563	129 561
Accounts payable and accrued liabilities		
Gouvernement du Québec	127 927	152 689
Other	39 495	41 408
Provision for fringe benefits and amounts owed to employees (Note 13)	<u>61 905</u>	<u>61 582</u>
	344 710	385 240
CUMULATED DEFICIT	<u>(106 777)</u>	<u>(70 916)</u>
	<u>237 933</u>	<u>314 324</u>
COMMITMENTS (Note 15)		
CONTINGENCIES (Note 16)		

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

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
Fees collected on vehicle registration and driver's licence transactions	95 245	90 162
Road checks		
Ministère des Finances contribution received	56 109	63 037
Other revenues	2 980	1 969
Ministère des Transports contribution received for program financing	10 963	18 187
Fees collected for management of unpaid fines	6 720	5 991
Revenues, excluding investments		
Current revenues collected	4 310	294
Interest paid	(2 462)	(736)
Other income collected	100	1 821
Administrative expenses paid by the Société	(285 229)	(283 764)
Administrative expenses reimbursed by the Insurance Fund	119 714	105 886
Expenses paid for programs financed by the Ministère des Transports	(10 655)	(8 339)
Fees collected for management of unpaid fines	(5 310)	(5 399)
Share in Tribunal administratif du Québec financing paid	(462)	(461)
	<u>(7 977)</u>	<u>(11 352)</u>
Trusteeship for the Insurance Fund		
Contributions – vehicle registration		
Collected for the Insurance Fund	574 861	562 129
Remitted to the Insurance Fund	(574 861)	(568 706)
Contributions – drivers' licences		
Collected for the Insurance Fund	128 312	126 280
Remitted to the Insurance Fund	<u>(128 312)</u>	<u>(127 768)</u>
	<u>-----</u>	<u>-----</u>
		(8 065)
Mandates conferred by the Gouvernement du Québec		
Registration and driver's licence fees		
Collected for the Gouvernement du Québec	797 011	776 023
Remitted to the Gouvernement du Québec	(791 261)	(803 507)
Collected for the Société de financement des infrastructures locales	45 443	41 786
Remitted to the Société de financement des infrastructures locales	(86 347)	(1 261)
Collected for other governments	38 255	39 000
Remitted to other governments	(38 255)	(39 000)
Taxes		
Collected for the Gouvernement du Québec	802 344	770 638
Remitted to the Gouvernement du Québec	(794 382)	(774 551)
Motorists' contribution to mass transit		
Collected for the Gouvernement du Québec	69 041	67 671
Remitted to the Gouvernement du Québec	(69 038)	(67 543)
Parking stickers		
Collected for the Gouvernement du Québec	555	513
Remitted to the Gouvernement du Québec	<u>(555)</u>	<u>(1 086)</u>
	<u>-----</u>	<u>-----</u>
	(27 189)	8 683
Cash flows related to operating activities		
(Amounts carried forward)	<u>(35 166)</u>	<u>(10 734)</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

STATEMENT OF CASH FLOWS (cont'd)
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Cash flows related to operating activities (Amounts carried forward)	<u>(35 166)</u>	<u>(10 734)</u>
INVESTMENT ACTIVITIES		
Disbursement for acquisition of capital assets	(14 790)	(18 664)
Proceeds from sale of capital assets	371	238
Disbursement for acquisition of intangible assets	<u>(8 701)</u>	<u>(17 141)</u>
Cash flows related to investment activities	<u>(23 120)</u>	<u>(35 567)</u>
FINANCING ACTIVITIES		
Reimbursements from the Insurance Fund	<u>70 000</u>	<u>58 567</u>
Cash flows related to financing activities	<u>70 000</u>	<u>58 567</u>
INCREASE IN CASH AND CASH EQUIVALENTS	11 714	12 266
OPENING DEFICIENCY OF CASH AND CASH EQUIVALENTS	<u>(127 097)</u>	<u>(139 363)</u>
CLOSING DEFICIENCY OF CASH AND CASH EQUIVALENTS (Note 14)	<u><u>(115 383)</u></u>	<u><u>(127 097)</u></u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at December 31, 2006

(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, created on January 1, 2004 through the transfer of the Société's assets. Its funds are intended 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 provisions pertaining to highway transportation which are under the responsibility of the departments and agencies designated by the Government, to the extent and on the conditions determined by agreement entered into pursuant to 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 (Notes 4 and 5).

Collection powers

Under agreements or regulations, the Société collects:

- for highway system access management, fees related to vehicle registration and driver's licence transactions;
- as a trustee for the Fonds d'assurance automobile du Québec, insurance premiums related to obtaining registration for a motor vehicle and issuing of a driver's licence.
- as an agent of the Gouvernement du Québec, fees related to vehicle registration and driver's licences, sales taxes applying to vehicles, the tax applicable to insurance premiums and motorists' contributions to mass transit;
- for the Société de financement des infrastructures locales, fees related to motor vehicles fitted with a high-cylinder engine;
- for provincial and US state governments, other registration fees.

Section 23.0.7 of the Act respecting the Société de l'assurance automobile du Québec 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.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(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:

	2006	2005
ASSETS		
Fund entrusted to the Caisse de dépôt et placement du Québec	8 157 883	7 563 714
Other assets	95 658	101 438
	<u>8 253 541</u>	<u>7 665 152</u>
LIABILITIES		
Obligations to accident victims – Actuarial liabilities	7 826 387	7 514 182
Other liabilities	492 052	548 941
	<u>8 318 439</u>	<u>8 063 123</u>
CUMULATED DEFICIT	<u>(64 898)</u>	<u>(397 971)</u>
	<u>8 253 541</u>	<u>7 665 152</u>

2. ACCOUNTING POLICIES

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

a) Financial instruments

Cash, accounts receivable, amounts receivable from the Insurance Fund, cheques issued in excess of bank balances, the credit line, receivables and accrued expenses are recorded at fair value, which equals their book value, given that they mature in the short term.

b) Capital assets

Capital assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	Method	Service life
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 monitoring stations		
Buildings	Straight-line	10 years and 20 years
Site development	Straight-line	20 years
Equipment	Summary-of-the-years' digits	Maximum 10 years

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

c) Intangible assets

Intangible assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	Method	Service life
Computer systems development	Straight-line	Maximum 7 years
Application software	Straight-line	Maximum 5 years

d) Revenue

Amounts collected for vehicle registration and driver's licence transactions are posted to revenue when received. Revenues for Société programs or mandates, and other revenues, are posted when they can be reasonably estimated and it is relatively certain that they will be received.

e) Government assistance

Subsidies granted under government assistance programs are used to diminish the cost of assets, when it is reasonably certain that they will be received.

f) Pension plans

Société employees contribute to Gouvernement du Québec inter-enterprise defined-benefit plans. The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

g) Cash and cash equivalents

It is the Société's policy to present bank balances, including bank overdrafts whose balances often fluctuate between overdraft and available, and the line of credit used to cover monthly cash shortages under cash and cash equivalents.

3. ROAD CHECKS

	2006	2005
Ministère des Finances contribution	54 181	55 578
Other revenues	2 980	1 969
	<u>57 161</u>	<u>57 547</u>

Road check costs are financed by a Ministère des Finances contribution, resulting from an agreement between it and the Société under section 648 of the Highway Safety Code (R.S.Q., c. C-24.2).

4. MINISTÈRE DES TRANSPORTS CONTRIBUTION TO PROGRAM FINANCING

The Société is mandated to implement the road vehicle adaptation program 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 (R.S.Q., c. S-11.011).

Under this agreement, the Minister also mandates the Société to issue parking identification stickers to handicapped persons in keeping with section 11 of the Highway Safety Code (R.S.Q., c. C-24.2).

As stipulated in Order-in-Council 739-2005 and in keeping with section 2, par. 1, subpar. (g) of the Act respecting the Société de l'assurance automobile du Québec, the Minister of Transport delegated the responsibility for managing the Alcofrein program to the Société under an agreement as of April 1, 2006.

Ministère des Transports program financing is based on the terms and conditions contained in the agreements signed by the parties.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

5. FEES COLLECTED FOR MANAGEMENT OF UNPAID FINES

Section 194 of the Highway Safety Code states that the Société shall restrict access to the highway system of persons or vehicles when the collector (section 364 of Code of Penal Procedure, [R.S.Q., c. C-25.1]), primarily municipalities, notifies the Société of the defendant's situation regarding unpaid fines.

The collection of unpaid fines is financed through the provisions of section 621 and 648.2 of the Highway Safety Code (R.S.Q., c. C-24.2) and the regulation respecting rates for enforcing section 194 of the Highway Safety Code (O.C. 414-2004).

6. REVENUES, EXCLUDING INTEREST

	2006	2005
Revenues – Interest posted to the Insurance Fund	3 535	3 087
Revenues – Interest posted to the Road Checks	754	
Interest income on bank balances	349	294
Interest charges on credit line	(2 462)	(736)
	<u>2 176</u>	<u>2 645</u>

7. ADMINISTRATIVE EXPENSES, AMORTIZATION AND OTHER

	2006				2005	
	Manage- ment of highway system access	Road checks	Programs financed by the Ministère des Transports (Note 8)	Manage- ment of unpaid fines	Total	Total
Administrative expenses						
Salaries and fringe benefits	67 623	34 698	1 327	2 449	106 097	105 018
Travelling expenses	941	1 424	14	31	2 410	2 455
Agents' remuneration	13 697			59	13 756	14 263
Administrative and professional services	7 554	2 011	373	288	10 226	11 837
Communications	5 836	2 086	53	1 904	9 879	10 423
Information and advertising	73	304	1	3	381	367
Furniture, fixtures and equipment	663	1 021	5	12	1 701	2 446
Maintenance	721	2 751	8	14	3 494	3 211
Rent, taxes and electricity	5 768	2 094	37	73	7 972	7 642
Data processing equipment and office equipment	535	243	9	16	803	511
Data processing and office automation equipment	6 850	2 055	38	235	9 178	9 409
Printing, supplies and other expenses	7 010	2 683	49	60	9 802	8 854
Loss on obsolete intangible assets	411	65	3	8	487	7 112
User costs of capital assets attributed to the Insurance Fund	(8 505)				(8 505)	(11 379)
Head Office user fees	2 916	952	82	159	4 109	3 209
Amounts carried forward	<u>112 093</u>	<u>52 387</u>	<u>1 999</u>	<u>5 311</u>	<u>171 790</u>	<u>175 378</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

7. ADMINISTRATIVE EXPENSES, AMORTIZATION AND OTHER (cont'd)

	2006				2005	
	Manage- ment of highway system access	Road checks	Programs Financed by the Ministère des Transports (Note 8)	Manage- ment of unpaid fines	Total	Total
Amounts brought forward	112 093	52 387	1 999	5 311	171 790	175 378
Amortization						
Capital assets	6 081	3 115	18	99	9 313	9 580
Intangible assets	15 543	1 659	136	671	18 009	16 360
	21 624	4 774	154	770	27 322	25 940
Total of administrative expenses and amortization	133 717	57 161	2 153	6 081	199 112	201 318
Other						
Subsidies			8 045		8 045	6 604
	133 717	57 161	10 198	6 081	207 157	207 922

The Société pays all of the administrative expenses for the mandates it manages. Thereafter, these administrative expenses are broken down by mandate via management by activity. This breakdown is:

	2006	2005
Management of highway system access	133 717	135 844
Road checks	57 161	57 547
Programs financed by the Ministère des Transports (including the reimbursed subsidies) (Note 8)	10 198	8 370
Management of unpaid fines	6 081	6 161
	207 157	207 922
Minus: Repaid subsidies (Note 8)	(8 045)	(6 604)
Administrative expenses and Société amortization	199 112	201 318
Administrative expenses and amortization attributed to the Insurance Fund	118 819	119 115
	317 931	320 433

The administrative expenses and amortization of the Insurance Fund are presented in detail in the financial statements of the Fonds d'assurance automobile du Québec.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

8. PROGRAMS FINANCED BY THE MINISTÈRE DES TRANSPORTS

	Vehicle adaptation	Parking identification stickers	Alcofrein	Total	Total
Administrative expenses	540	1 126	333	1 999	1 594
Amortization	15	134	5	154	172
	555	1 260	338	2 153	1 766
Subsidies	8 045			8 045	6 604
	8 600	1 260	338	10 198	8 370

9. SHARE IN TRIBUNAL ADMINISTRATIF DU QUÉBEC FINANCING

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 out each organization's share.

10. CAPITAL ASSETS

	2006		2005	
	Cost	Accumulated depreciation	Unamortized cost	Unamortized cost
Land	1 637		1 637	1 637
Building	3 988	1 401	2 587	2 604
Head office furnishings	11 212	11 212		
Equipment	5 191	4 301	890	1 338
Automotive equipment	12 677	6 840	5 837	5 177
Photography station	12 180	12 153	27	50
Data processing equipment and operating software	65 460	52 095	13 365	16 085
Highway carrier monitoring weigh station ¹	30 214	5 262	24 952	17 873
	142 559	93 264	49 295	44 764

- 1 Highway monitoring stations valued at \$8 481 000 were not yet operational at December 31, 2006 (2005: \$4 689 000). Consequently, they were not amortized. During the fiscal year, the Société received a subsidy for the construction of a road check station from the federal government. An amount of \$1 462 500 was posted to decrease capital asset costs.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

11. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Unamortized cost
Computer systems development ¹	129 303	65 399	73 196
Application software	3 106	1 877	1 732
	<u>132 409</u>	<u>67 276</u>	<u>74 928</u>

- 1 Computer developments worth \$10 277 000 (2005: \$11 124 000) were under way at December 31, 2006 and were not amortized. Computer developments worth \$3 708 000 (2005: \$10 604 000) and cumulated amortization of \$3 221 000 (2005: \$3 492 000) were written off during the fiscal year because they were obsolete or because future benefits were not realizable. A loss for obsolescence of \$487 000 (2005: \$7 112 000) was posted to administrative expenses.

12. CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC CREDIT LINE

The Société obtained a \$200-million credit line 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 4.3% at December 31, 2006 (2005: 3.3%). This credit line expires on December 31, 2008.

13. PROVISION FOR FRINGE BENEFITS AND AMOUNTS OWED TO EMPLOYEES

	2006			2005
	Sick leave	Vacation time	Other fringe benefits and amounts owing ¹	Total
Balance, beginning of year	41 475	18 358	1 749	61 582
Plus				
Annual expenses	9 956	16 031	3 504	29 491
Minus				
Benefits paid	9 652	15 943	3 573	29 168
Balance, end of year	<u>41 779</u>	<u>18 446</u>	<u>1 680</u>	<u>61 905</u>

- 1 The other fringe benefits include employer compensation for paid absences, notably in wage insurance and maternity/paternity leave. The amounts owed are related to overtime and unpaid holidays.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

14. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following items in the balance sheet:

	<u>2006</u>	<u>2005</u>
Cash on hand		2 464
Cheques issued in excess of bank balances	(6 820)	
Caisse de dépôt et placement du Québec credit line	<u>(108 563)</u>	<u>(129 561)</u>
Deficiency in cash and cash equivalents	<u>(115 383)</u>	<u>(127 097)</u>

At December 31, 2006, the accounts payable and accrued liabilities for capital assets and intangible assets totalled \$5 470 000 (2005: \$5 769 000). The amount owed by the Insurance Fund for capital assets totalled \$64 000 (2005: \$781 000).

15. COMMITMENTS**Rental contracts**

The Société is committed under various premises rental contracts for a minimum amount estimated at \$27 171 000 at December 31, 2006. These contracts are in effect up to 2012 and break down as:

2007	\$8 409 000
2008	6 163 000
2009	4 935 000
2010	3 930 000
2011	1 918 000
2012	1 816 000

Contracts for computer and other services

The Société is committed under various contracts for computer and other services for an amount estimated at \$26 083 000 on December 31, 2006. These contracts are in effect up to 2011 and break down as:

2007	\$18 057 000
2008	5 754 000
2009	1 568 000
2010	631 000
2011	73 000

16. CONTINGENCIES

Various judicial and non-judicial proceedings instituted by or against the Société are under way. In the Société's opinion, the outcome of these proceedings, lined primarily to lawsuits for damages and interest, could not be determined at December 31, 2006.

17. 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). Inter-enterprise plans are defined-benefit plans and include guaranteed payments on retirement and death.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

17. PENSION PLANS (cont'd)

The Société's contributions charged to the year-end statement totalled \$7 316 000 (2005: \$7 857 000), \$3 018 000 of which was posted to the Insurance Fund in 2006 (2005: \$3 265 000). The Société's liability towards these Government plans is restricted to its contributions as an employer.

18. 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 under normal business 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 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.

19. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

MANAGEMENT'S REPORT

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal auditing department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

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

The Board of Directors must oversee the manner in which management performs its financial reporting duties, meet with management and the Auditor General, review the financial statements and recommend that the Board of Directors approve them.

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

John Harbour, FCA
President and Chief Executive Officer

André Legault
Vice-President, Administration and
Finance

Québec, March 26, 2007

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société de l'assurance automobile du Québec as at December 31, 2006 and the statements of income, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 26, 2007

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
(R.S.Q., c. S-13)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
fiscal year ended March 31, 2007
(in thousands of dollars)

	2007	2006
GROSS SALES (Note 7)	2 980 326	2 765 309
Taxes, discounts and other (Note 7)	616 243	592 191
NET SALES (Note 7)	2 364 083	2 173 118
OPERATING EXPENSES		
Cost of products sold (Note 7)	1 183 322	1 058 939
Selling and marketing, distribution and administrative expenses	420 844	403 408
	1 604 166	1 462 347
EARNINGS BEFORE FINANCING EXPENSES, DEPRECIATION, OTHER INCOME (EXPENSES) AND INCOME TAX EXPENSES	759 917	710 771
FINANCING EXPENSES AND DEPRECIATION		
Financing expenses (Note 8)	6 435	6 436
Depreciation of fixed assets	46 086	47 006
Depreciation of the building rented under a capital lease	407	407
Depreciation of other assets	33	239
	52 961	54 088
EARNINGS BEFORE OTHER INCOME AND INCOME TAX EXPENSES	706 956	656 683
OTHER INCOME		
Gain on disposal of an interest in a joint venture	2 998	
Amortization of the deferred gain on the disposal of assets to a joint venture	114	270
	3 112	270
EARNINGS BEFORE INCOME TAXES	710 068	656 953
INCOME TAXES		
Current	(15)	15
Future	(14)	(11)
	(29)	4
NET EARNINGS	710 097	656 949
RETAINED EARNINGS AT BEGINNING OF YEAR	5 560	5 611
DIVIDEND	(709 000)	(657 000)
RETAINED EARNINGS AT END OF YEAR	6 657	5 560

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

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED BALANCE SHEET**

March 31, 2007

(in thousands of dollars)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (Note 21)	22 192	32 540
Accounts receivable (Note 9)	44 988	58 216
Inventory (Note 10)	238 014	265 235
Prepaid expenses and deposits	27 632	17 308
	<u>332 826</u>	<u>373 299</u>
Fixed assets (Note 11)	236 115	267 933
Building rented under a capital lease (Note 12)	4 070	4 477
Consolidated goodwill		12 302
Other assets (Note 13)		806
	<u>573 011</u>	<u>658 817</u>
LIABILITIES		
Current liabilities		
Bank loans (Note 14)	89 500	196 396
Accounts payable and accrued liabilities (Note 15)	246 703	256 497
Dividend to be paid	159 000	124 000
	<u>495 203</u>	<u>576 893</u>
Debentures, 8.66% (Note 16)		1 500
Capital lease obligation (Note 17)	5 903	7 007
Deferred gain on the disposal of the assets to a joint venture (Note 18)		3 487
Accrued benefit liability – cumulative sick leave credits (Note 19)	33 604	33 104
Accrued benefit liability – retirement plan (Note 19)	1 644	1 237
Future income taxes payable by the joint venture subsidiary		29
	<u>536 354</u>	<u>623 257</u>
SHAREHOLDER'S EQUITY		
Equity/share capital		
Authorized, issued and paid 300 000 shares valued at \$100 each	30 000	30 000
Retained earnings	6 657	5 560
	<u>36 657</u>	<u>35 560</u>
	<u>573 011</u>	<u>658 817</u>

CONTINGENCIES AND COMMITMENTS (Note 20)

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

On behalf of the Board of Directors,
 Norman Hébert, jr., Chairman of the Board of Directors
 Chantal Bélanger, Audit Committee Chairperson

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED CASH FLOWS**

fiscal year ended March 31, 2007

(in thousands of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net earnings	710 097	656 949
Non-cash items:		
Depreciation	46 526	47 652
Loss on sale of fixed assets	426	182
Impairment in value of consolidated goodwill	274	
Gain on disposal of an interest in a joint venture	(2 998)	
Amortization of the deferred gain on the disposal of assets to a joint venture	(114)	(270)
Future income taxes	(14)	(11)
Expenses relating to sick leave credits	2 627	2 405
Expenses relating to the retirement plan	407	337
	757 231	707 244
Net change in non-cash items of working capital (Note 21)	13 857	(25 723)
Use of cumulative sick leave credits	(2 127)	(2 053)
Cash flows provided from operating activities	768 961	679 468
INVESTMENT ACTIVITIES		
Gain on disposal of an interest in a joint venture, net of cash disposed (Note 5)	23 473	
Business acquisition (Note 6)		58
Debentures receivable		2 500
Acquisition of fixed assets	(18 974)	(24 863)
Sale of fixed assets	104	214
Other assets	(27)	(198)
Cash flows used for investment activities	4 576	(22 289)
FINANCING ACTIVITIES		
Variation in bank loans	(106 896)	(71 534)
Debentures payable	(2 000)	(500)
Reimbursement of the capital lease obligation	(989)	(887)
Dividend	(674 000)	(598 000)
Cash flows used for financing activities	(783 885)	(670 921)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10 348)	(13 742)
CASH AND CASH EQUIVALENTS AT THE START OF THE FISCAL YEAR	32 540	46 282
CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR	22 192	32 540

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

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2007

(in thousands of dollars)

1. STATUTES AND NATURE OF ACTIVITIES

The Société des alcools du Québec (the SAQ) is constituted under the Act respecting the Société des alcools du Québec (R.S.Q., c. S-13). The SAQ's mandate is to sell alcoholic beverages in the province of Quebec.

2. FISCAL YEAR

The SAQ's fiscal year ends on the last Saturday in the month of March. Consequently, the fiscal years ended March 31, 2007, and March 26, 2006, covered 53 and 52 weeks of operation respectively.

3. CHANGES TO ACCOUNTING POLICIES**Fiscal year ended March 25, 2006*****Consolidation of Variable Interest Entities***

In June 2003, the Canadian Institute of Chartered Accountants (CICA) issued an amended guideline regarding Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities (VIE)". The amended guideline provides instructions on and explains the application of basic consolidation principles to entities known to be VIEs, where control is exerted by a means other than voting. These entities should be consolidated by the main beneficiary, namely the entity that will assume the bulk of the forecast losses resulting from the VIE's activities or that will obtain the bulk of the VIE's residual returns, or both. The amended guideline has no impact on the consolidated financial statements of the fiscal year ended March 25, 2006.

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, S.E.C., a joint venture in which the SAQ has a 50% interest until August 26, 2006, the date on which the SAQ disposed its interest. This interest was recognized using the proportionate consolidation method. The consolidated financial statements also include its share of the assets, liabilities, products and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ held a 50% interest. Interest in this entity is 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, on the disclosure of contingent asset and liability at the date of the financial statements as well as on the revenues and expenses recognized during the fiscal year. Actual results could differ from those estimates.

Revenue recognition

Sales to consumers, agencies, license holders (including licensed establishments and institutions), authorized distributors (wholesale grocers) and brewers and beer distributors are recognized when transacted, i.e. at the time the products are delivered to these 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.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Operating leases**

The SAQ recognized the building occupancy expenses resulting from its operating leases using the straight-line method over the duration of the lease.

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. Foreign exchange gains and losses are included in the fiscal year's income statements. Exchange losses amounting to \$3.7 million and \$2.4 million are included in the 2007 and 2006 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 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, S.E.C., 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 which 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, at the date of the financial statements, 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 and short-term investments with maturities of three months or less from the date of acquisition.

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. The following annual rates are used:

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%

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**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%.

Consolidated goodwill

As of March 25, 2006, consolidated goodwill included the SAQ's interest in Maison des Futailles, S.E.C. and the consolidated goodwill resulting from the acquisition of an additional interest in Société d'investissement M.-S., S.E.C. Goodwill is not amortized, but tested annually or more frequently if events or changes in circumstances indicate that it 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. On March 31, 2007, the SAQ's portion of the consolidated goodwill of Maison des Futailles, S.E.C., in the amount of \$12 million, was disposed of and the consolidated goodwill resulting from the acquisition of an interest in Société d'investissement M.-S., S.E.C., in the amount of \$0.3 million, was written off.

Organization charges

Organization charges are amortized using the straight-line method over a period of seven years.

Depreciation of long-lived assets

Long-lived 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 benefit 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 by actuarial calculations by projecting the costs on a pro rata 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 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 16 years at March 31, 2007 and March 25, 2006.

Retirement plans

SAQ employees participate in retirement plans for government employees and public organizations. These plans, administered by the Commission administrative des régimes 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, because the SAQ does not have enough information to apply defined benefit accounting.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Employee benefits plans (cont'd)
Retirement plans (cont'd)

The SAQ also administers a supplemental retirement pension plan for senior management. This plan takes into account the years of service with the SAQ and the average of the three highest annual salaries earned by the employee over the course of his or her career. 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 relation to the retirement contributions is established using the cost method projected on a pro rata basis according to the years of service. The evaluation was carried out using the 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 and losses of greater than 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 for executives was 5.6 years at March 31, 2007 and 6.6 years at March 25, 2006.

5. DISPOSAL OF AN INTEREST IN A JOINT VENTURE

On August 26, 2006, the SAQ sold its interest in Maison des Futailles, S.E.C. to a Canadian private corporation for the sum of \$25.2 million, from which were deducted the \$1.1 million in costs to sell the interest and a \$3.1 million obligation resulting from the establishment of an early retirement program for the personnel affected by this transaction.

Following the transaction, the balance of the deferred gain on the transfer of assets to a joint venture, totalling \$3.4 million appearing on the balance sheet, was applied against the operating results. The sale of the interest in Maison des Futailles, S.E.C. generated at total gain on disposal of \$3.0 million.

As at August 26, 2006, the financial information regarding the sold assets and liabilities were itemized as follows:

Assets

Cash	673
Accounts receivable	3 986
Inventory	5 131
Prepaid expenses	370
Fixed assets	4 176
Consolidation goodwill	12 028
Other assets	800
	<u>27 164</u>

Liabilities

Accounts payables and accrued liability	5 708
Future income taxes payable	15
	<u>5 723</u>

Net assets disposed	<u><u>21 441</u></u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

6. BUSINESS ACQUISITION

On June 30, 2004, the joint venture Maison des Futailles, S.E.C. 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. During the fiscal year ended March 25, 2006, the joint venture purchased the non-controlling shareholder's remaining interest of 10% in Clos Saint-Denis Inc. for a cash consideration of \$300 000, thereby securing full ownership of the subsidiary. 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 transaction date. Moreover, the joint venture negotiated a \$400 000 reduction in the initial purchase price when it acquired a 90% interest in Clos Saint-Denis Inc.

The values attributed to the net assets acquired in these transactions are as follows:

	2006
Consolidated goodwill	(171)
Future income tax liabilities	56
Net assets acquired	<u>(115)</u>
Consideration paid (received) in cash	<u>(115)</u>
SAQ's proportionate ownership	<u>(58)</u>

7. NET SALES AND COST OF SALES

	Outlets and specialized centres	Wholesale- grocers	Subtotal	Brewers and beer distributors ⁽¹⁾	Total	
					2007	2006
Gross sales	2 391 780	376 161	2 767 941	212 385	2 980 326	2 765 309
Less :						
- Provincial sales tax	163 338	23 133	186 471	12 707	199 178	184 593
- Specific tax	88 058	29 176	117 234		117 234	108 524
- Specific license holders' tax	44 354		44 354		44 354	44 149
- Federal goods and services tax	127 981	18 146	146 127	10 157	156 284	161 107
- Discounts and returns	43 050		43 050		43 050	41 324
- Compensation to agents	5 733		5 733		5 733	5 292
- Compensation to wholesale grocers		44 223	44 223		44 223	41 426
- Contributions to the Environmental Fund	3 093	630	3 723		3 723	3 464
- Contributions to the Fonds Éduc'alcool inc.	2 101	363	2 464		2 464	2 312
	<u>477 708</u>	<u>115 671</u>	<u>593 379</u>	<u>22 864</u>	<u>616 243</u>	<u>592 191</u>
Net sales	<u>1 914 072</u>	<u>260 490</u>	<u>2 174 562</u>	<u>189 521</u>	<u>2 364 083</u>	<u>2 173 118</u>
Cost of sales	<u>864 537</u>	<u>129 264</u>	<u>993 801</u>	<u>189 521</u>	<u>1 183 322</u>	<u>1 058 939</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

7. NET SALES AND COST OF SALES (cont'd)

- (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. However, these sales do not generate any gross earnings.

8. FINANCING EXPENSES

	2007	2006
Interest on bank loans	5 499	4 679
Interest on term loans made to a business under shared control	1 716	2 630
Interest on debentures payable	67	177
Interest relating to the capital lease obligation	831	933
	<u>8 113</u>	<u>8 419</u>
Less : Interest on investments, term deposits and others	(1 678)	(1 806)
Interest on debentures receivable	<u>(177)</u>	<u>(177)</u>
	<u>(1 678)</u>	<u>(1 983)</u>
	<u><u>6 435</u></u>	<u><u>6 436</u></u>

9. ACCOUNTS RECEIVABLE

	2007	2006
Wholesale grocers	14 955	21 364
Licensed establishments, institutions and other commercial accounts	30 033	36 818
Income taxes receivable from of a joint venture subsidiary	<u>34</u>	<u>34</u>
	<u>44 988</u>	<u>58 216</u>

10. INVENTORY

	2007	2006
Bottled beverages	235 776	254 819
Beverages in bulk and production materials	<u>8 152</u>	<u>8 152</u>
Miscellaneous supplies	2 238	2 264
	<u>238 014</u>	<u>265 235</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

11. FIXED ASSETS

	2007			2006		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Land	10 775		10 775	10 974		10 974
Buildings	120 410	28 763	91 647	115 225	24 982	90 243
Furniture and equipment	320 341	212 274	108 067	319 464	182 816	136 648
Rolling stock	14 828	9 100	5 728	14 371	7 596	6 775
Leasehold improvements	45 102	26 308	18 794	45 552	23 277	22 275
Paving and parking	3 746	2 642	1 104	3 533	2 515	1 018
	<u>515 202</u>	<u>279 087</u>	<u>236 115</u>	<u>509 119</u>	<u>241 186</u>	<u>267 933</u>

12. BUILDING RENTED UNDER A CAPITAL LEASE

	2007			2006		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Building	<u>16 280</u>	<u>12 210</u>	<u>4 070</u>	<u>16 280</u>	<u>11 803</u>	<u>4 477</u>

13. OTHER ASSETS

	2007			2006		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Organization charges				1 664	1 631	33
Other				<u>773</u>		<u>773</u>
				<u>2 437</u>	<u>1 631</u>	<u>806</u>

14. BANK LOANS

	2007	2006
Term loans	<u>89 500</u>	<u>196 396</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 terms of one year, as long as the sum total of its loans do not exceed \$400 million. As of March 31, 2007, bank loans consisted of four term loans totalling \$89.5 million, two of which amounted to \$65.0 million from a business under shared control (six at March 25, 2006, totalling \$196.4 million, of which two were from a business under shared control totalling \$80.0 million). These loans bear interest at a rate of 4.29% (3.78% to 3.80% in 2006) and mature in five days or less (six days or less in 2006).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued expenses	137 375	148 503
Government taxes and fees	52 181	67 821
Compensation and benefits	56 043	38 684
Short-term portion of debentures payable and of the capital lease obligation	1 104	1 489
	<u>246 703</u>	<u>256 497</u>

16. DEBENTURES

On August 26, 2006, the Maison des Futailles, S.E.C. joint venture reimbursed the total amount of the debentures outstanding prior to the transaction to dispose of the joint venture by the SAQ. In 2006, this sum represented the SAQ's portion of the unsecured debentures of the joint venture in the amount of \$4 million less the short-term portion disclosed. These debentures were reimbursable in two annual payments of \$1 million and one final payment of \$2 million on July 1, 2009. The SAQ's portion of these annual payment amounts was \$500 000 and \$1 million, respectively.

17. CAPITAL LEASE OBLIGATION

	2007	2006
Liability resulting from the rental of a building, repayable until April 11, 2012, in monthly instalments of \$150 000, including interest calculated at an annual rate of 11%, capitalized semi-annually.	7 007	7 996
Less: Portion of the liability due within one year	<u>(1 104)</u>	<u>(989)</u>
	<u>5 903</u>	<u>7 007</u>

Payments in each of the following fiscal years:

	Principal	Interest	Total
2008	1 104	716	1 820
2009	1 231	589	1 820
2010	1 374	446	1 820
2011	1 533	287	1 820
2012	1 765	110	1 875
	<u>7 007</u>	<u>2 148</u>	<u>9 155</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

18. INTERESTS IN JOINT VENTURES**Maison des Futailles, S.E.C.**

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, S.E.C., a joint venture in which the SAQ acquired a 35% interest. The reported gain from this transaction was \$3.5 million at March 25, 2006, and was 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%. On August 26, 2006, the SAQ disposed of its interest in this joint venture.

Société d'investissement M.-S., S.E.C.

On October 31, 2004, the SAQ acquired from J.F. Hillebrand an additional interest of 5% in Société d'investissement M.-S., S.E.C. for a cash consideration of \$400 000, thereby increasing the SAQ's interest in Société d'investissement M.-S., S.E.C. 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 of the additional interest.

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.

	2007	2006
Results		
Net sales	14 939	41 650
Cost of products sold	9 923	26 500
	<u>5 016</u>	<u>15 150</u>
Operating expenses	5 111	9 275
Financing costs	52	581
Depreciation	623	1 395
	<u>5 786</u>	<u>11 251</u>
Earnings (loss) before income taxes	(770)	3 899
Income taxes	(29)	4
	<u>(741)</u>	<u>3 895</u>
Net earnings (loss)	<u>(741)</u>	<u>3 895</u>
Balance sheet		
Current assets	210	21 427
Long-term assets	256	21 338
	<u>466</u>	<u>42 765</u>
Current liabilities	269	6 705
Long-term liabilities	269	1 529
	<u>269</u>	<u>8 234</u>
Shareholder's equity	197	34 531
	<u>466</u>	<u>42 765</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

18. INTERESTS IN JOINT VENTURES (cont'd)**Société d'investissement M.-S., S.E.C. (cont'd)****Cash flows**

Cash flows provided from operating activities	724	3 073
Cash flows used for financing activities	(500)	(3 102)
Cash flows used for investment activities	(521)	(1 028)

19. EMPLOYEE FUTURE BENEFITS**Total cash payments**

Total cash payments on account of employee future benefits for 2007, 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 \$12.0 million (\$11.5 million in 2006).

Defined benefit pension plans

For accounting purposes, the SAQ evaluates its obligations relating to contributions on December 31 of each year for the cumulative sick leave credit plan and at the end of each fiscal year for the supplemental retirement plan for executives. The most recent actuarial valuation for capitalization purposes of the cumulative sick leave credit plan was carried out on December 31, 2004; the next valuation must be completed by December 31, 2007. The most recent actuarial valuation for capitalization purposes of the supplemental retirement plan for executives was carried out on March 31, 2007, and the next valuation must be completed by March 31, 2010.

Reconciliation of the funded status of the employee benefit plans to the amounts recognized in the financial statements

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2007	2006	2007	2006
Pension benefit obligations and financial status	25 509	24 634	2 540	2 194
Unamortized balance	8 095	8 470	(896)	(957)
Accrued benefit liabilities appearing on the SAQ's balance sheet	33 604	33 104	1 644	1 237

Cost of employee future benefits recognized during the fiscal year

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2007	2006	2007	2006
Defined benefit pension plans	2 627	2 405	407	337
Defined contribution pension plans			9 891	9 486

Benefits paid

Benefits paid by the cumulative sick leave credits plan amounted to \$2.1 million in 2007 and 2006, whereas no benefits were paid by the supplemental retirement plan for executives in 2007 and 2006.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

19. EMPLOYEE FUTURE BENEFITS (cont'd)**Principal assumptions**

The principal assumptions used are as follows:

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2007	2006	2007	2006
Obligations for pension benefits accumulated at the end of the fiscal year				
Discount rate	5.00%	5.00%	5.00%	5.25%
Compensation growth rate	3.00%	3.00%	3.50%	3.50%
Rate of use of sick leave credits	*	*		

* From 40% to 65% depending on the employee group

Cost of benefits for the fiscal year				
Discount rate	5.00%	5.50%	5.25%	5.50%
Compensation growth rate	3.00%	3.00%	3.50%	3.00%
Rate of use of sick leave credits	*	*		

* From 40% to 65% depending on the employee group

20. 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 \$15.5 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, as, in the opinion of management, settlements that might result from these claims would have no significant impact on the company's consolidated financial statements.

Commitments

For its operating leases, the SAQ is committed to paying a total amount of \$285.4 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

2008	37 847
2009	37 121
2010	36 155
2011	33 473
2012	28 360
2013 – 2022	112 463

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 THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

21. CASH FLOW DATA

Cash flows related to operating activities include the following items:

	2007	2006
Interest paid	8 187	8 439
Income taxes paid (collected) by a joint venture subsidiary	(8)	(36)

The net variation in the non-cash items of working capital is detailed as follows:

Accounts receivable	9 242	503
Inventory	22 090	(15 268)
Prepaid expenses and deposits	(10 694)	(536)
Accounts payable and accrued liability	(6 781)	(10 422)
	<u>13 857</u>	<u>(25 723)</u>

Cash and cash equivalents at the end of the fiscal year ⁽¹⁾	<u>22 192</u>	<u>32 540</u>

(1) Includes, as at March 25, 2006, a short-term investment in 600 000 shares of a mutual fund redeemable at book value at any time.

22. FINANCIAL INSTRUMENTS
Fair value of financial instruments

	2007		2006	
	Fair value	Book value	Fair value	Book value
Debentures payable, 8.66%			1 988	2 000
Capital lease obligation	7 890	7 007	9 151	7 996

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 cash equivalents; receivables other than the short-term portion of debentures receivable and taxes on earnings receivable from a joint venture subsidiary; bank loans; accounts payable and accrued liabilities (excluding government taxes and fees and the short-term portion of debentures payable); a capital lease obligation; and dividends.

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 quarterly and maturing in 2012. That rate is 6.19% in 2007 (6.33% in 2006).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

22. FINANCIAL INSTRUMENTS (cont'd)**Interest-rate risk**

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 to these liabilities.

Foreign exchange risk

The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. As at March 31, 2007, these accounts payable totalled 8.3 million euros and US\$0.8 million (4.3 million euros and US\$0.5 million at March 25, 2006).

Derivative instruments

To reduce the potential negative effects of a drop in the value of the Canadian dollar on exchange markets, the SAQ (and, in 2006, one of its joint ventures) employs a variety of derivative financial instruments.

At March 31, 2007, the SAQ held a zero-cost tunnel contract negotiated in euros and ending in April 2007:

Currency	Nominal exchange rate		Contract amount
	Floor	Ceiling	
Euro	1.5450	1.5625	3 000

Euro and U.S. dollar contracts with a minimum term of 12 months were held at end of the fiscal year ended on March 25, 2006:

Currency	Weighted average forward rate	Contract amount
Euro	1.5078	7 000
U.S. Dollar	1.1800	500

At March 31, 2007, the recorded negative fair value of these derivative financial instruments is \$0.02 million (\$0.05 million at March 25, 2006).

23. RELATED PARTY TRANSACTIONS

In the normal course of its activities, the SAQ concluded business transactions with certain companies related to the Government of Québec. These transactions were carried out under terms and conditions similar to those that apply to unrelated parties and were measured at the exchange value.

24. COMPARATIVE FIGURES

Certain previously reported figures have been reclassified to conform to the current year's presentation.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**MANAGEMENT'S REPORT**

The consolidated financial statements provided below have been prepared by the management of the Société des alcools du Québec and approved by its Board of Directors. Management is responsible for the data and statements contained in these consolidated financial statements and in the other sections of the Annual Report. The consolidated financial statements were prepared in accordance with the policies and procedures established by management and with Canadian generally accepted accounting principles. They reflect management's best judgement and estimates based on currently available information.

As part of its duties, the management of the Société des alcools du Québec maintains an internal audit system designed to provide reasonable assurance that the company's assets are adequately safeguarded, that all transactions are duly authorized by management and that the accounting records constitute a reliable basis for the preparation of accurate and timely financial statements. Moreover, the Internal Audit Department regularly reviews the accounting procedures and management systems. Its findings and recommendations are then submitted to management, which acts accordingly.

The Board of Directors of the Société des alcools du Québec is responsible for ensuring that management fulfils its obligations for financial reporting and internal controls. The Board performs this function through its Audit Committee, which consist solely of independent directors. The Board also periodically reviews the consolidated financial statements and studies the reports on the accounting policies and procedures and the internal control systems.

The consolidated financial statements have been audited by the firm Raymond Chabot Grant Thornton L.L.P., chartered accountants, in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion on whether the financial statements are fairly presented. The Auditor's Report, shown opposite, specifies the scope of their audit and presents their opinion on these financial statements.

In management's opinion, these financial statements take into consideration, within reasonable limits, all significant items and data available as of May 16, 2007.

Sylvain Toutant
President and Chief Executive Officer

Richard Genest
Vice-President and
Chief Financial Officer

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

AUDITORS' REPORT

The Honourable Monique Jérôme-Forget
Minister of Finance
Shareholder of the Société des alcools du Québec

We have audited the consolidated balance sheet of the Société des alcools du Québec as at March 31, 2007, and the consolidated statements of income, retained earnings and cash flows for the fiscal year then ended. 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 standards, which require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 31, 2007, and the results of its operations and its cash flows for the year the ended, in accordance with Canadian generally accepted accounting principles. In accordance with the requirements of 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 16, 2007

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
(R.S.Q., c. S-13.01)

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

	<u>2007</u>	<u>2006</u>
REVENUES		
Fishing and vacation resorts	31 304	30 459
Hunting	15 181	15 084
Food services, boutiques and accommodation stores	15 178	14 313
Other outdoor activities	14 298	11 509
Concessions and miscellaneous	4 080	4 759
Subsidies	3 194	2 471
Management fees	<u>23 079</u>	<u>19 946</u>
	<u>106 314</u>	<u>98 541</u>
EXPENSES		
Salaries and fringe benefits	51 774	47 217
Maintenance and energy	17 739	16 434
Overhead and administrative expenses	11 655	10 877
Resale products	9 516	11 142
Selling cost and marketing expenses	5 963	5 736
Amortization	5 109	5 290
Financial charges (Note 3)	1 941	1 383
Share in affiliated company, etc.	<u>106</u>	<u>5</u>
	<u>103 803</u>	<u>98 084</u>
NET INCOME	<u><u>2 511</u></u>	<u><u>457</u></u>

CUMULATED DEFICIT
for the years ended March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	(30 059)	(30 516)
Net income	<u>2 511</u>	<u>457</u>
BALANCE, END OF YEAR	<u><u>(27 548)</u></u>	<u><u>(30 059)</u></u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Accounts receivable	2 916	3 207
Subsidies receivable	8 277	7 055
Inventories	2 065	2 201
Expenses carried over to coming year	1 785	1 774
Advance to affiliated company (Note 9)	<u>6 879</u>	
	21 922	14 237
Subsidies receivable	28 528	22 056
Share in and advance to affiliated company	426	419
Capital assets (Note 4)	<u>168 206</u>	<u>167 804</u>
	<u>219 082</u>	<u>204 516</u>
LIABILITIES		
Current liabilities		
Outstanding cheques minus cash on hand	1 950	264
Accounts payable	22 096	20 350
Customer deposits	11 394	10 509
Long-term debt maturing during the coming year (Note 5)	<u>200</u>	<u>400</u>
	35 640	31 523
Long-term debt (Note 5)	53 327	51 831
Deferred subsidies	<u>86 076</u>	<u>79 634</u>
	<u>175 043</u>	<u>162 988</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 6)	71 587	71 587
Accumulated deficit	<u>(27 548)</u>	<u>(30 059)</u>
	44 039	41 528
	<u>219 082</u>	<u>204 516</u>

COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)

On behalf of the Board of Directors,
Georges Laberge
Yvan Bilodeau

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

STATEMENT OF CASH FLOWS
for the years ended March 31
(in thousands of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net results	2 511	457
Amortization	5 109	5 290
Share in affiliated company	106	5
Short-term variation in items	4 468	1 195
	<u>12 194</u>	<u>6 947</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(13 500)	(14 008)
Proceeds from sale of assets	226	79
Advance to affiliated company (Note 9)	(6 879)	
Advance to affiliated company	(113)	94
	<u>(20 266)</u>	<u>(13 835)</u>
FINANCING ACTIVITIES		
Subsidies for capital assets cashed	5 090	2 301
Borrowing	1 696	5 074
Long-term debt repayment	(400)	(400)
	<u>6 386</u>	<u>6 975</u>
CHANGE IN CASH FLOWS	(1 686)	87
OUTSTANDING CHEQUES MINUS CASH, BEGINNING OF YEAR	<u>(264)</u>	<u>(351)</u>
OUTSTANDING CHEQUES MINUS CASH, END OF YEAR	<u>(1 950)</u>	<u>(264)</u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2007

(in thousands of dollars)

1. INCORPORATION AND PURPOSE

The Société was incorporated under the Act respecting the Société des établissements de plein air du Québec (R.S.Q., c. S-13.01), assented to on December 21, 1984 to administer, operate and develop, alone or jointly, the recreational or tourist facilities, immovable or territories transferred to it under this Act, and to devise, erect, administer, operate and develop, alone or jointly, any other recreational or tourist facility, immovable or territory.

2. ACCOUNTING POLICIES

a) Use of estimates

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

b) Revenue reporting

Revenues from delivery of services related to fishing, vacationing, hunting and other outdoor activities are posted when the services are rendered.

The Société posts revenues from the sale of products when all of the risks and advantages inherent in the property have been transferred to the client.

Subsidies come from the Gouvernement du Québec and are posted to revenues when the expenses are recognized.

Management fees come from the Gouvernement du Québec for covering expenses related to conservation, education and maintenance of the national parks network and are posted to revenues in the fiscal years in question.

c) Stocks

Stocks are assessed at cost (average cost method) or net realization value, whichever is less.

d) Share in affiliated company

The Société accounts for its share in the affiliated company on an equity basis.

e) Capital assets and amortization

Capital assets are recorded at cost and amortized in accordance with the straight-line method and the following rates:

• Buildings and infrastructures	4%
• Ski lifts	5%
• Automotive equipment, furniture, equipment, leasehold improvements and wildlife developments	14% and 20%

Capital assets are reviewed for amortization when there are indications that it may not be possible to recover their book value.

f) Deferred subsidies

Capital asset subsidies are posted to deferred subsidies and transferred to operations as the related capital assets are amortized.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)
g) 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.

h) Pension plans

Société staff is covered by pension plans offered to Québec government and public agency employees. The Société's contribution to these plans totalled \$1 670 928 (2006: \$1 572 414), was established by the Commission administrative des régimes de retraite et d'assurances du Québec and covers the cost of current service.

3. FINANCING COSTS

Financing costs of \$1 941 000 (2006: \$1 383 000) include interest on the long-term debt of \$2 045 000 (2006: \$1 368 000), interest on the bank borrowing of \$5 000 (2006: \$15 000) and interest income of \$109 000 (2006: zero).

4. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net value
Land	2 469		2 469
Recreational or tourist territories	13 892		13 892
Buildings and infrastructures	193 553	50 965	142 588
Ski lift	1 499	978	521
Rolling stock	13 606	8 460	5 146
Furniture, equipment, leasehold improvements	20 178	16 588	3 590
	<u>245 197</u>	<u>76 991</u>	<u>168 206</u>
			<u>167 804</u>

In fiscal 2006-2007, subsidies of \$13 428 000 (2006: \$9 806 000) were granted for work on immoveables and posted to deferred subsidies.

5. LONG-TERM DEBT

	2007	2006
Bank acceptances, in the amount of \$51 955 000, maturing from April 2007 to March 2008, bearing interest at rates varying from 4.36% to 4.49% and loan at the prime rate in the amount of \$1 372 000 ¹	53 327	51 631
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 April 2007	200	600
	<u>53 527</u>	<u>52 231</u>
Minus: Portion due within one year	200	400
	<u>53 327</u>	<u>51 831</u>

1 The Société negotiated credit facilities with financial institutions, allowing it to borrow, as it wished, various amounts in different forms to a maximum of \$88 000 000 which the Government authorized it to borrow, including a credit facility of \$60 000 000 to \$70 000 000 renewable in April 2008 and maturing in April 2017.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

5. LONG-TERM DEBT (cont'd)

Capital repayment on the long-term debt to be made over the coming fiscal year is \$200 000, assuming that credit facilities are renewable at the same conditions.

6. CAPITAL STOCK

	<u>2007</u>	<u>2006</u>
Authorized:		
Pursuant to its incorporating legislation, the Société is authorized to issue to the Minister of Finance 750 000 common voting shares with a par value of \$100		
Issued:		
268 617 shares issued as payment for the transfer of assets	26 862	26 862
447 250 shares paid in cash	<u>44 725</u>	<u>44 725</u>
	<u>71 587</u>	<u>71 587</u>

7. COMMITMENTS

The Société is bound by commitments for a balance of \$13 264 000, excluding escalator clauses on leases. The minimum lease payments for the next five fiscal years are:

2008	\$3 681
2009	2 738
2010	1 441
2011	1 444
2012	1 252

Further, at March 31, 2007, the Société committed to capital asset expenditures of \$2 519 000 over the coming fiscal year.

8. 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.

9. TRANSACTIONS WITH AN AFFILIATED COMPANY

In May 2006, an accord was signed by the Société des parcs de sciences naturelles du Québec, Minister of Sustainable Development, the Environment and Parks and the Société, mandating the Société to manage and administer the Parc Aquarium du Québec and coordinate shutdown of the Jardin zoologique du Québec.

During the fiscal year, the Société advanced the Société des parcs de sciences naturelles du Québec \$6 879 000 with interest at an average rate of 4.4%, without repayment terms and posted interest income of \$109 000. The Société also posted management fee income of \$3 535 000 to offset the costs it incurred.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

10. FINANCIAL INSTRUMENTS**Credit risk**

In its normal course of business, the Société monitors its client accounts. The Société does not believe that it is exposed to a higher-than-normal credit risk where its clients are concerned.

Fair value

Given their imminent or short-term maturity, the fair value of payables, the advance to the affiliated company, receivables, client deposits and long-term borrowings indicated in the balance sheet resemble 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 with essentially the same economic features.

11. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

The financial statements of the Société des établissements de plein air du Québec (SÉPAQ) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

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

The accounting firm Mallette, general partnership, limited-liability chartered accountants, has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. Its report states the nature and scope of its audit and its opinion. The auditor may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Yvan Bilodeau
President and Chief Executive Officer

Réal Couture, CA
Vice-chairman,
Administration and Finance

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

AUDITORS' REPORT

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, 2007 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Mallette
SENCRL
Chartered Accountants

Québec, April 27, 2007

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC
(R.S.Q., c. S-13.01)

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

	2007	2006
REVENUES		
Subsidies (Note 1)	11 740	12 753
Other	47	3 825
	<u>11 787</u>	<u>16 578</u>
EXPENSES		
Shutdown costs	4 571	
Repayment of excess of expenses over revenues at the Parc Aquarium du Québec (Note 1)	3 535	
Financing costs (Note 4)	2 681	2 745
Property taxes	2 698	2 668
Amortization of financing costs	142	142
Amortization of capital assets, net deferred subsidies	1 467	2 923
Loss on write-off of net assets		23 387
General operating and administrative expenses		9 934
	<u>15 094</u>	<u>41 799</u>
NET INCOME	<u>(3 307)</u>	<u>(25 221)</u>

STATEMENT OF CUMULATED DEFICIT
for the years ended March 31
(in thousands of dollars)

	2007	2006
BALANCE, BEGINNING OF YEAR	(27 711)	(1 480)
Change in an accounting policy (Note 2c)	215	258
Adjustment in property taxes for past years (Note 3)	1 689	636
Adjusted opening balance	(25 807)	(586)
Net income	<u>(3 307)</u>	<u>(25 221)</u>
BALANCE, END OF YEAR	<u>(29 114)</u>	<u>(25 807)</u>

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand		226
Accounts receivable	27	128
Stocks		213
Expenses deferred to the coming year	576	97
	<u>603</u>	<u>664</u>
Financing costs	140	282
Capital assets (Note 5)	<u>29 852</u>	<u>31 600</u>
	<u><u>30 595</u></u>	<u><u>32 546</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	950	3 275
Amount owed to an affiliated company (Note 1)	6 879	
Long-term debt maturing during the coming year (Note 6)	3 098	2 952
	<u>10 927</u>	<u>6 227</u>
Deferred subsidies	4 226	4 472
Long-term debt (Note 6)	<u>44 556</u>	<u>47 654</u>
	59 709	58 353
CUMULATED DEFICIT	<u>(29 114)</u>	<u>(25 807)</u>
	<u><u>30 595</u></u>	<u><u>32 546</u></u>

COMMITMENTS AND CONTINGENCIES (Notes 1 and 7)

On behalf of the Board of Directors,
Denys Larose
Jean Lamy

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

STATEMENT OF CASH FLOWS
for the years ended March 31
(in thousands of dollars)

	2007	2006
OPERATING ACTIVITIES		
Net results	(3 307)	(25 221)
Amortization of capital assets		
net deferred subsidies	1 467	2 923
Amortization of financing costs	142	142
Loss on write-off of net assets		23 387
Other items		(33)
Short-term change in items	(2 490)	2 619
	<u>(4 188)</u>	<u>3 817</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets		(859)
Revenue from sale of assets	35	3
	<u>35</u>	<u>(856)</u>
FINANCING ACTIVITIES		
Long-term debt repayment	(2 952)	(2 913)
Sum cashed from affiliated company	6 879	
	<u>3 927</u>	<u>(2 913)</u>
CHANGE IN CASH FLOWS	(226)	48
CASH, BEGINNING OF YEAR	<u>226</u>	<u>178</u>
CASH, END OF YEAR	<u><u>226</u></u>	<u><u>226</u></u>

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2007

(in thousands of dollars)

1. INCORPORATING STATUTES, NATURE OF ACTIVITIES, COMMITMENTS AND TRANSACTIONS WITH AFFILIATED COMPANIES

The Société was created on August 30, 1994 under Part III of the Québec Companies Act to manage the Parc Aquarium du Québec (Aquarium) and Jardin zoologique du Québec (Jardin).

In 2002, under an emphyteutic lease, the Québec Minister of Sustainable Development, the Environment and Parks and the Québec Minister of Transport assigned the immoveables of the Aquarium and the Jardin to the Société for a forty-year period ending March 31, 2042. No value was posted as contributions for these immoveables.

On November 30, 2005, the Government decided to shut down the Jardin, consolidate its activities at the Aquarium and transfer responsibility for the sites to the Société des établissements de plein air du Québec (Sépaq). On March 31, 2006, the Jardin ceased being accessible to the public.

On May 3, 2006, the Société signed a management agreement with the Sépaq and the Minister of Sustainable Development, the Environment and Parks mandating Sépaq to manage and administer the Aquarium and coordinate the Jardin shutdown plan. Under this agreement, and notwithstanding the availability of budgetary appropriations, the Minister committed to paying the Société the amounts needed to meet its obligations, i.e. reimbursing borrowings, the Jardin's property taxes and shutdown costs and reimbursing the Sépaq for the excess expenses over revenues at the Aquarium. To do so, during the fiscal year, the Société received a subsidy of \$11 740 000 (2006: \$12 203 000) and incurred expenses of \$3 535 000 to offset the financial loss generated by Aquarium operations and which Sépaq had covered.

The Société may also borrow when the annual subsidy is insufficient to cover the disbursements. During the fiscal year, the Société borrowed \$6 879 000 from Sépaq at an average interest rate of 4.4%, without terms of repayment and posted interest paid in the amount of \$109 000.

2. ACCOUNTING POLICIES

a) Use of estimates

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

b) Revenue reporting

Subsidies are reported as revenues when the expenses are recognized.

The Société reports revenues from the sale of products when all of the risks and advantages inherent in the property have been transferred to the client.

c) Capital assets and amortization

Capital assets are recorded at cost. Capital lease contracts are posted at the realized value of the minimum amounts payable. Until 2006, the majority of immoveables were amortized in accordance with the diminishing balance method. During the fiscal year, the Société changed its amortization method to the straight-line method for everything. The following table shows the periods and rates used.

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)
c) Capital assets and depreciation (cont'd)

	New method	Old method
Buildings	straight-line 35 years	diminishing balance 4%
Parking	straight-line 25 years	diminishing balance 8%
Landscaping	straight-line 15 years	diminishing balance 10%
Furniture and equipment	straight-line 5 years	diminishing balance 15%
Rolling stock	straight-line 5 years	diminishing balance 20%
Animals	straight-line 5 years	straight-line 5 years

The change in the accounting policy was applied retroactively and resulted in an increase in the amortization of capital assets, net deferred subsidies and \$175 000 (2006: \$41 000) decrease in net results. It also adjusted the opening balance of the cumulated deficit of \$215 000 (2006: \$258 000).

Capital assets are reviewed for depreciation when there are indications that it may not be possible to recover their book values.

d) Financing costs

The financing costs are amortized in accordance with the straight-line method over a five-year period.

e) Deferred subsidies

Capital asset subsidies are recorded as deferred subsidies and transferred to operations as the capital assets to which they relate are amortized.

3. ADJUSTMENT IN PROPERTY TAXES FOR PAST YEARS

During the fiscal year, the Société adjusted the property taxes reported in past fiscal years in the amount of \$1 689 000 on April 1, 2006 and \$636 000 on April 1, 2005. This adjustment eliminated the write-off of the subsidy for property taxes and reduced the net loss for fiscal 2005-2006 by \$1 053 000.

4. FINANCING COSTS

Financing costs of \$2 681 000 (2006: \$2 745 000) include interest on the long-term debt of \$2 573 000 (2006: \$2 745 000).

5. CAPITAL ASSETS

	2007		2006
	Cost	Cumulated amortization	Net value
Buildings and parking	31 248	3 780	27 468
Landscaping	2 367	667	1 700
Furniture, equipment and rolling stock	3 169	2 610	559
Animals	430	305	125
	<u>37 214</u>	<u>7 362</u>	<u>29 852</u>
			<u>31 600</u>

"Furniture, equipment and rolling stock" includes equipment leased under capital-lease contracts in the amount of \$138 000 (2006: \$138 000) and cumulated amortization of \$104 000 (2006: \$85 000).

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

6. LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
Short-term borrowing guaranteed by the Gouvernement du Québec, bearing interest at 5,2 %, repayable in monthly instalments of \$340 927 including principal and interest, renewable in July 2008*	34 799	37 022
Short-term borrowing guaranteed by the Gouvernement du Québec, bearing interest at 5.352%, repayable in monthly instalments of \$117 754 including principal and interest, renewable in October 2009 *	12 844	13 551
Borrowings under capital-lease contracts at rates varying from 8.5% to 9%, repayable in monthly instalments varying from \$353 to \$760 including principal and interest, maturing in 2008	11	23
Borrowing repaid in the fiscal year	<u>47 654</u>	<u>10</u> 50 606
Minus: Portion due within one year	<u>3 098</u>	<u>2 952</u>
	<u>44 556</u>	<u>47 654</u>

*Under financial assistance agreements between the Société and the Gouvernement du Québec, the latter reimburses the Société for payments of principal and interest made to the lender.

Capital repayments on the long-term debt to be made over the coming fiscal years are:

2008	3 098
2009	33 241
2010	11 315

7. CONTINGENCIES

The Société may, on occasion, be subject to claims and lawsuits in the course of its business. The outcome of these claims is often uncertain. The Société feels that sufficient provision was recorded in its financial statements at fiscal year-end and that the final settlement of these contingencies will have no negative effect on its financial position.

8. PENSION PLAN

On April 29, 2002, the Société implemented an optional defined-benefit pension plan. The employer contribution corresponds to 5% of the employee's gross wages if the latter contributes a minimum of 5% of his/her gross wages to the plan.

The fiscal year's expense related to this pension plan is \$42 000 (2006: \$116 000).

9. NON-MONETARY OPERATIONS

The Ministère du Développement durable, de l'Environnement et des Parcs pays for a portion of the payroll and fringe benefits of certain employees assigned to the Société. Consequently, revenues and expenses include an amount of \$990 000 (2006: \$1 176 000).

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

10. FINANCIAL INSTRUMENTS**Fair value**

The fair value of accounts payable, accounts receivable, the amount owed to an affiliated company and long-term debts indicated in the balance sheet are close to their fair value given that they mature very soon of in the short term or given that their interest rates are similar to market rates.

11. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

AUDITORS' REPORT

To the Minister of Finance

We have audited the balance sheet of the Société des parcs des sciences naturelles du Québec as at March 31, 2007 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Figures corresponding to the previous fiscal year come from financial statements audited by another auditor.

Mallette
SENCRL
Chartered Accountants

Québec, April 27, 2007

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
(R.S.Q., c. S-14)

STATEMENT OF OPERATIONS AND DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
EXPENSES		
Operating expenses (Note 3)	\$47 258 126	\$46 096 146
Administrative expenses (Note 4)	4 598 435	4 300 928
Amortization of capital assets	7 454 687	7 651 471
Financial expenses	<u>3 967 064</u>	<u>4 069 121</u>
	<u>63 278 312</u>	<u>62 117 666</u>
REVENUES		
Vehicle transport	7 828 007	7 757 962
Passenger transport	6 458 300	6 203 250
Other (Note 5)	<u>833 506</u>	<u>606 243</u>
	<u>15 119 813</u>	<u>14 567 455</u>
LOSS BEFORE GOVERNMENT CONTRIBUTIONS	48 158 499	47 550 211
GOVERNMENT CONTRIBUTIONS (Note 6)	<u>47 141 459</u>	<u>47 135 907</u>
NET LOSS	1 017 040	414 304
DEFICIT, BEGINNING OF YEAR	<u>10 157 066</u>	<u>9 742 762</u>
DEFICIT, END OF YEAR	<u>\$11 174 106</u>	<u>\$10 157 066</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
BALANCE SHEET
 as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$5 096 628	\$3 068 666
Accounts receivable (Note 7)	406 111	3 042 425
Prepaid expenses	464 228	332 919
Contribution to be recovered from the Government (Note 8)	871 925	889 129
	<u>6 838 892</u>	<u>7 333 139</u>
Investment of compensation for federal wharves (Note 11)	35 320 527	35 558 138
Contribution to be recovered from the Government (Note 8)	26 771 625	26 776 370
Capital assets (Note 9)	<u>73 795 901</u>	<u>78 237 383</u>
	<u><u>\$142 726 945</u></u>	<u><u>\$147 905 030</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$6 377 899	\$7 656 374
Long-term debt repayments (Note 10)	<u>5 146 116</u>	<u>4 641 077</u>
	11 524 015	12 297 451
Rent collected in advance	132 000	138 000
Long-term debt (Note 10)	<u>76 386 903</u>	<u>77 835 189</u>
Deferred government contribution		
For financial compensation from transfer of federal wharves (Note 11)	35 320 527	35 558 138
For capital assets (Note 12)	<u>28 863 812</u>	<u>30 559 524</u>
	64 184 339	66 117 662
	<u>152 227 257</u>	<u>156 388 302</u>
SHAREHOLDER'S EQUITY (DEFICIT)		
Capital stock (Note 13)	1 500 000	1 500 000
Contributed surplus (Note 14)	173 794	173 794
Deficit	<u>(11 174 106)</u>	<u>(10 157 066)</u>
	<u>(9 500 312)</u>	<u>(8 483 272)</u>
	<u><u>\$142 726 945</u></u>	<u><u>\$147 905 030</u></u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Georges Farrah
 François Désy

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net loss	\$(1 017 040)	\$(414 304)
Adjustments for:		
Amortization of capital assets	7 454 687	7 651 471
Decrease (increase) in contribution to be recovered from the Government	21 949	(503 511)
Transfer of deferred Government contributions	(3 960 608)	(5 182 845)
Gain (loss) on sale of capital assets	(28 287)	22 316
Decrease in rent collected in advance	<u>(6 000)</u>	<u>(6 000)</u>
	2 464 701	1 567 127
Change in certain assets and short-term liabilities apart from cash and cash equivalents:		
Accounts receivable	2 636 314	(2 255 975)
Prepaid expenses	(131 309)	(10 017)
Accounts payable and accrued liabilities	<u>(1 308 167)</u>	<u>633 524</u>
Cash flows from (for) operating activities	<u>3 661 539</u>	<u>(65 341)</u>
INVESTMENT ACTIVITIES		
Acquisition of long-term investments	(2 029 504)	(2 235 862)
Proceeds from sale of investments	2 262 675	3 371 651
Acquisition of capital assets	(2 986 025)	(3 022 384)
Proceeds from sale of capital assets	<u>30 800</u>	
Cash flows for investment activities	<u>(2 722 054)</u>	<u>(1 886 595)</u>
FINANCING ACTIVITIES		
Long-term borrowing	3 765 891	1 473 304
Government contribution and related financial proceeds from transfer of federal wharves	2 031 724	2 237 001
Long-term debt repayment	<u>(4 709 138)</u>	<u>(4 185 810)</u>
Cash flows from (for) financing activities	<u>1 088 477</u>	<u>(475 505)</u>
INCREASE (DECREASE) IN CASH	2 027 962	(2 427 441)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>3 068 666</u>	<u>5 496 107</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$5 096 628</u>	<u>\$3 068 666</u>
 Interest paid during the fiscal year	 <u>\$3 984 268</u>	 <u>\$4 142 740</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2007

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 located in Québec. Its shares are part of the Québec public domain and are reserved for the Minister of Finance.

Under section 5 of its incorporating legislation, the Société is an agent of the State and, consequently, is not subject to Québec and Canadian income tax.

2. ACCOUNTING POLICIES

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

Revenue reporting

Service delivery

Revenues from service delivery are posted once the following conditions have been met:

- ✓ The service was paid for and rendered;
- ✓ The service was rendered and invoiced and recovery is reasonably certain.

Government participation

The Société uses the deferred method to record subsidies. The subsidy, and the related financial products subject to an allocation of external origin to charges for future fiscal years, are posted to revenues in the fiscal years in which the corresponding charges are incurred. Unassigned subsidies are posted to revenues when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain,

Capital assets

Capital assets acquired by donation are valued at historical cost, appraised value or municipal assessment. Other capital assets are recorded at acquisition cost, which includes interest accrued during construction and repair work.

Capital assets are amortized in accordance with the following methods and rates:

	Method	Rate
Buildings	Diminishing balance	4% and 10%
Wharves	Diminishing balance	5%
Vessels	Diminishing balance	15%
Fixtures and equipment	Diminishing balance	20%
Automotive equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	Term of lease

The Société regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows the asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimated future cash flows and determination of fair value requires the exercise of professional judgement and may vary over time.

Contribution to be recovered from the Government

The contribution to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for capital asset acquisitions, plus the accumulated depreciation on those assets, and the subsidies received from the Gouvernement du Québec to make the payments on said borrowings.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Deferred Government contributions**

Subsidies for capital asset acquisitions and the value assigned to assets acquired by donation are posted to deferred Government contributions and transferred to operations using the same methods and amortization rates as those used for the related capital assets.

Cash and cash equivalents

It is the Société's policy to present bank balances including bank overdrafts, whose balances often fluctuate between overdraft and available amounts, and short-term investments maturing within three months of the date they were acquired, under cash and cash equivalents

3. OPERATING EXPENSES

	2007	2006 (Note 19)
Salaries and fringe benefits	\$21 269 406	\$20 116 249
Operating contracts	1 868 153	1 624 995
Fuel	7 919 525	7 463 058
Maintenance and repairs - Vessels	6 366 154	5 860 013
Maintenance and repairs - Wharves	4 375 325	5 607 621
Maintenance and repairs - Buildings	467 722	491 361
Property and school taxes	892 069	893 503
Insurance	1 214 309	1 216 361
Commission de la santé et sécurité au travail	389 460	219 542
Travel expenses	309 882	316 023
IT maintenance and telecommunications	146 152	165 891
Uniforms	123 101	341 003
Advertising	178 260	156 202
Professional fees	494 106	708 184
Port and wharf fees	437 223	401 111
Other	857 279	703 698
Amounts recovered from insurers	(50 000)	(188 669)
	<u>\$47 258 126</u>	<u>\$46 096 146</u>

4. ADMINISTRATIVE EXPENSES

	2007	2006 (Note 19)
Salaries and fringe benefits	\$3 321 931	\$3 137 022
Staff training	245 419	301 002
Travel expenses	229 779	189 110
Professional fees	207 247	95 667
Head Office building costs	215 291	187 943
Advertising	46 433	43 649
IT maintenance and telecommunications	101 556	95 410
Stationery and printing	88 022	89 617
Other	142 757	161 508
	<u>\$4 598 435</u>	<u>\$4 300 928</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. OTHER REVENUE

	2007	2006
Interest on bank deposits	\$425 223	\$186 047
Interest on adjustment to the Commission de la santé et de la sécurité du travail assessment	162	11 241
Docking fees	39 449	59 007
Parking and miscellaneous	80 771	128 222
Vending machines and food concession	195 186	188 977
Advertising	33 931	39 133
Space rental	30 497	15 932
Gain (loss) on sale of capital assets	28 287	(22 316)
	<u>\$833 506</u>	<u>\$606 243</u>

6. GOVERNMENT CONTRIBUTIONS

	2007	2006
Gouvernement du Québec subsidies		
Operating subsidy from the Ministère des Transports	\$43 202 800	\$41 449 551
Government contributions collectable	(21 949)	503 511
	<u>43 180 851</u>	<u>41 953 062</u>
Transfer of deferred Government contributions		
For financial compensation from the transfer of federal wharves (Note 11)	2 264 895	3 372 790
For capital assets (Note 12)	1 695 713	1 810 055
	<u>3 960 608</u>	<u>5 182 845</u>
	<u>\$47 141 459</u>	<u>\$47 135 907</u>

7. ACCOUNTS RECEIVABLE

	2007	2006
Transportation sector	\$295 634	\$422 973
Government sector	7 205	45 828
Ministère des Transports subsidy receivable		2 533 451
Insurance claim	50 000	
Other	53 272	40 173
	<u>\$406 111</u>	<u>\$3 042 425</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT

The Gouvernement du Québec committed to paying the Société the sums required to cover its obligations regarding borrowings from the Financing Fund for capital asset acquisitions, after ensuring that the Société is unable to cover them itself.

The contribution to be recovered is:

	2007	2006
Balance, beginning of year	\$27 665 499	\$27 161 988
Amortization of capital assets financed on a long-term basis	4 704 393	4 762 940
Accrued interest on borrowings	3 967 064	4 069 121
	<u>36 336 956</u>	<u>35 994 049</u>
Government contributions received	<u>(8 693 406)</u>	<u>(8 328 550)</u>
Balance, end of year	<u><u>\$27 643 550</u></u>	<u><u>\$27 665 499</u></u>

This balance relates to the following balance sheet items:

	2007	2006
Borrowings from the Financing Fund (Note 10)	\$55 981 609	\$56 924 856
Unamortized cost of capital assets financed on a long-term basis (Note 9)	<u>(29 209 984)</u>	<u>(30 148 486)</u>
	26 771 625	26 776 370
Accrued interest on borrowings	<u>871 925</u>	<u>889 129</u>
	<u><u>\$27 643 550</u></u>	<u><u>\$27 665 499</u></u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. CAPITAL ASSETS

	2007				2006	
	Financed on a long-term basis (Note 8)	Acquired from the Gouver- nement du Québec	Acquired by donation (Note 12)	Other	Total	Total
Cost						
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	4 098 304	1 681 967	4 967 215	2 545 667	13 293 153	12 887 721
Vessels	107 249 359		29 228 709	2 330 683	138 808 751	136 465 695
Furniture and equipment			12 738	2 475 030	2 487 768	2 334 391
Automotive equipment				123 149	123 149	123 149
Leasehold improvements			215 930	737 067	952 997	853 724
	<u>112 280 375</u>	<u>24 790 610</u>	<u>74 999 683</u>	<u>8 955 438</u>	<u>221 026 106</u>	<u>218 024 968</u>
Accumulated amortization						
Wharves	388 224	11 839 135	13 803 511	186 394	26 217 264	24 167 407
Buildings	609 094	1 297 190	3 372 594	872 059	6 150 937	5 573 933
Vessels	82 073 073		28 559 550	1 461 951	112 094 574	107 442 650
Furniture and equipment			10 492	1 788 994	1 799 486	1 639 480
Automotive equipment				114 220	114 220	110 391
Leasehold improvements			215 930	637 794	853 724	853 724
	<u>83 070 391</u>	<u>13 136 325</u>	<u>45 962 077</u>	<u>5 061 412</u>	<u>147 230 205</u>	<u>139 787 585</u>
Net value	<u>\$29 209 984</u>	<u>\$11 654 285</u>	<u>\$29 037 606</u>	<u>\$3 894 026</u>	<u>\$73 795 901</u>	<u>\$78 237 383</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. LONG-TERM DEBT**

	2007	2006
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	12 952 136	15 234 477
Borrowing from the Financing Fund, 6.96%, repayable in semi-annual instalments of \$1 725 967, maturing January 2018	26 198 265	27 747 679
Borrowing from the Financing Fund, 5.06%, repayable in semi-annual instalments of \$280 938, maturing January 2018	4 689 962	5 004 583
Borrowing from the Financing Fund, 5.68%, repayable in semi-annual instalments of \$288 635, maturing January 2018	4 665 440	4 966 088
Borrowing from the Financing Fund, 6.04%, repayable in semi-annual instalments of \$102 319, maturing June 2028	2 443 703	2 498 725
Borrowing from the Financing Fund, 5.00%, repayable in semi-annual instalments of \$181 137, maturing in 2016	3 697 830	
Borrowing from the Financing Fund, 4.72%, repayable in semi-annual instalments of \$91 860, maturing December 2015	1 334 273	1 473 304
	81 533 019	82 476 266
Instalments due within one year	5 146 116	4 641 077
	<u>\$76 386 903</u>	<u>\$77 835 189</u>

Payments of principal on loans for the next five fiscal years are:

2008	\$5 146 116
2009	5 527 819
2010	5 938 717
2011	6 381 091
2012	5 099 130

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

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.

	2007	2006
Balance, beginning of year	\$35 558 138	\$36 696 205
Interest earned	1 891 693	2 135 265
Amortization of discount and premiums on investments	137 811	100 597
Safekeeping charges	(1 706)	(1 139)
Loss on sale of investments	(514)	
	<u>37 585 422</u>	<u>38 930 928</u>
Transfer to operations of an amount equivalent to net maintenance and repair costs for federal wharves	<u>(2 264 895)</u>	<u>(3 372 790)</u>
	<u>\$35 320 527</u>	<u>\$35 558 138</u>

This balance relates to the following balance sheet items:

Investment of compensation for federal wharves comprising:

Cash	\$210 904	\$347 225
Compulsory market investment (market value: \$37 834 470; 2006 : \$37 839 463)	34 720 741	34 745 996
Accrued interest receivable	<u>388 882</u>	<u>464 917</u>
	<u>\$35 320 527</u>	<u>\$35 558 138</u>

Compulsory investments include interest of 4.3% to 12.25%. Maturity dates range from April 2007 to July 2025.

Discounts and bonuses are amortized in accordance with the internal rate of return method.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. DEFERRED GOVERNMENT CONTRIBUTIONS FOR CAPITAL ASSETS

	2007	2006
a) Gouvernement du Québec		
Balance, beginning of year	\$4 054 461	\$4 466 036
Transfer of following amounts to results:		
Amortization of capital assets subsidized or acquired by donation	<u>(367 485)</u>	<u>(411 575)</u>
Balance, end of year	<u>3 686 976</u>	<u>4 054 461</u>
b) Gouvernement du Canada		
Balance, beginning of year	26 505 063	27 903 543
Transfer to operations of amount equal to amortization of subsidized or donated capital assets	<u>(1 328 227)</u>	<u>(1 398 480)</u>
Balance, end of year	<u>25 176 836</u>	<u>26 505 063</u>
	<u><u>\$28 863 812</u></u>	<u><u>\$30 559 524</u></u>

This balance relates to the following items:

Land	\$173 794	\$173 794
Wharves	26 597 786	27 997 671
Buildings	1 594 621	1 771 801
Vessels	669 159	787 244
Fixtures and equipment	<u>2 246</u>	<u>2 808</u>
	29 037 606	30 733 318
Minus: Government share recorded as contributed surplus (Note 14)	<u>(173 794)</u>	<u>(173 794)</u>
	<u><u>\$28 863 812</u></u>	<u><u>\$30 559 524</u></u>

13. CAPITAL STOCK

	2007	2006
Authorized:		
100 000 shares with a par value of \$100 each		
Issued and paid up:		
15 000 shares	<u><u>\$1 500 000</u></u>	<u><u>\$1 500 000</u></u>

14. CONTRIBUTED SURPLUS

	2007	2006
Government share in property acquired by donation (Note 12)	<u><u>\$173 794</u></u>	<u><u>\$173 794</u></u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**15. COMMITMENTS**

The Société signed a long-term lease expiring in 2019 for offices at the Lévis station with a 14-year option to renew. During the fiscal year, the Société signed a lease for rental of Port of Québec offices expiring in 2009. This lease includes three 5-year renewal options.

Under service agreements with three water carriers aimed at maintaining ferry services, the Société is committed to paying these carriers an annual amount to cover certain allowances or to make up their budgetary deficit.

Lease payments for the year ended March 31, 2007 totalled \$66 537. Remuneration paid to carriers totalled \$1 868 153.

At March 31, 2007, the Société's commitments for the next five fiscal years are:

	Leases	Service agreements *
2008	\$67 000	\$1 898 335
2009	69 000	
2010	62 000	
2011	51 000	
2012	53 000	
	<u>\$302 000</u>	<u>\$1 898 335</u>

* Service agreement amounts are based on an estimate of the costs foreseen under contracts and carriers' budgetary deficits.

16. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not 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. PENSION PLANS

Société staff participates in the Government and Public Employees Retirement Plan or Pension Plan of Management Personnel. These are inter-enterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$790 686 (2006: \$688 242). Its liability towards this Government plan is restricted to its employer contributions.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

18. FINANCIAL INSTRUMENTS**Bond investments**

The fair market value of bonds is evaluated using the average of the buying and selling rates deemed representative of the market for titles with similar features.

Government contribution collectable

The fair value of the government contribution collectable cannot be assessed, given the lack of a market for this type of financial instrument.

Long-term debt

At March 31, 2007, the fair value of the long-term debt of \$81 533 019 (2006: \$82 476 266) was \$88 277 064 (2006: \$89 648 514) 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 to equal book value, given the lack of a market for this type of long-term debt.

Short-term borrowing

At March 31, 2007, the Société was able to meet its short-term cash needs through short-term borrowings, credit lines with financial institutions or the Government's Financing Fund. These credit lines are authorized up to \$5 000 000 until July 31, 2007. They bear interest at the lending institution's prime rate.

Other assets and liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities equals their book value, given that they mature in the short term.

19. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

MANAGEMENT'S REPORT

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

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

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

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

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Georges Farrah
President and Chief Executive Officer

Lucie Gendron
Director, Administration and Finance

Québec, May 16, 2007

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société des traversiers du Québec as at March 31, 2007 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 16, 2007

SOCIÉTÉ D'HABITATION DU QUÉBEC
(R.S.Q., c. S-8)

STATEMENT OF OPERATIONS
for the year ended December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Contributions (Note 3)		
Gouvernement du Québec	354 779	332 157
Canada Mortgage and Housing Corporation	<u>284 085</u>	<u>291 607</u>
	638 864	623 764
Fees (Note 4)	689	842
Interest and other revenues	<u>1 239</u>	<u>1 761</u>
	<u>640 792</u>	<u>626 367</u>
EXPENSES		
Program costs (Note 3)	607 386	595 311
Administrative expenses (Note 5)	<u>33 406</u>	<u>31 056</u>
	<u>640 792</u>	<u>626 367</u>

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC

BALANCE SHEET
as at December 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 6)	39 359	53 592
Accounts receivable (Note 7)	<u>36 060</u>	<u>41 708</u>
	75 419	95 300
Reserved funds (Note 8)	417	218
Contribution recoverable – Gouvernement du Québec (Note 14)	12 025	10 925
Capital assets (Note 9)	<u>7 358</u>	<u>6 019</u>
	<u>95 219</u>	<u>112 462</u>
LIABILITIES		
Current liabilities		
Short-term borrowing (Note 10)	7 250	6 019
Accounts payable (Note 11)	51 948	49 477
Provision for vacation time (Note 12)	2 063	2 092
Deferred contribution		
Gouvernement du Québec	3 577	
Canada Mortgage and Housing Corporation (Note 13)	<u>13 102</u>	<u>38 789</u>
	77 940	96 377
Allowance for losses on loan guarantees (Note 14)	12 025	10 925
Provision for sick leave (Note 12)	<u>5 254</u>	<u>5 160</u>
	<u>95 219</u>	<u>112 462</u>

COMMITMENTS AND CONTINGENCIES (Notes 18 and 19)

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Jacqueline Exumé Kavanaght, Chairman of the Board of Directors
Robert Madore, President and Chief Executive Officer

SOCIÉTÉ D'HABITATION DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash receipts – government contributions	621 805	639 268
Cash receipts – fees	667	702
Cash receipts – other	26	42
Disbursements – program costs	(605 309)	(606 220)
Disbursements – administrative expenses	(29 619)	(29 756)
Interest received	1 237	1 728
Interest paid	(251)	(138)
	(11 444)	5 626
Reserved funds (Note 8)	(199)	(218)
Amounts held for funding agencies (Note 15)		
Cash receipts – amounts received	2 697	1 910
Disbursements – amounts received	(2 670)	(2 012)
Interest received	14	9
	41	(93)
	(11 602)	5 315
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of capital assets	(3 862)	(3 254)
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowings	1 231	1 125
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14 233)	3 186
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53 592	50 406
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	39 359	53 592

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**

as at December 31, 2006

(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

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

a. Contributions

Contributions for program costs and the fiscal year's administrative costs are posted to revenue when the expenses related to these programs and administrative costs are posted.

The Canada Mortgage and Housing Corporation acts on behalf of the Government of Canada for programs contemplated by Canada-Québec framework agreements.

b. Program costs

Subsidies for program costs are posted to expenditures when the events related to them occur provided they had been authorized and the beneficiaries met the eligibility criteria, where applicable.

c. Pension plans

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

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 THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

e. Capital assets

Capital assets are recorded at cost.

Computer development includes the cost of system design, execution, implementation and improvement.

Capital assets are amortized in accordance with the straight-line method over their estimated service life:

Capital assets

Leasehold improvements	5 years
Equipment	3 years

Tangible assets

Computer development	5 years
Software	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	2006			2005		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Affordable, community social housing assistance						
Non-profit housing (b)						
Public						
Regular component	245 744	102 308	143 436	230 455	95 280	135 175
Inuit component	62 470	28 776	33 694	61 003	31 257	29 746
	<u>308 214</u>	<u>131 084</u>	<u>177 130</u>	<u>291 458</u>	<u>126 537</u>	<u>164 921</u>
Private						
Housing cooperatives and non-profit organizations	24 795	6 309	18 486	25 427	6 357	19 070
Native housing – urban	6 455	1 631	4 824	6 632	1 674	4 958
Native housing – rural	5 718	1 439	4 279	5 503	1 386	4 117
	<u>36 968</u>	<u>9 379</u>	<u>27 589</u>	<u>37 562</u>	<u>9 417</u>	<u>28 145</u>
Amounts carried forward	<u>345 182</u>	<u>140 463</u>	<u>204 719</u>	<u>329 020</u>	<u>135 954</u>	<u>193 066</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

	2006			2005		
		Contributions			Contributions	
Program	Cost	Gouvernement du Québec	CMHC (a)	Cost	Gouvernement du Québec	CMHC (a)
Affordable, community social housing assistance (cont'd)						
Non-profit housing (b) (cont'd)						
Amounts brought forward	345 182	140 463	204 719	329 020	135 954	193 066
Housing allowance for the elderly and families	85 735	85 735		87 955	87 955	
Rent supplement	47 832	28 846	18 986	41 939	24 190	17 749
Logement abordable Québec						
Social and community component	34 510	7 826	26 684	37 697	3 709	33 988
Private component	4 007	621	3 386	3 969	260	3 709
Kativik region component	2 024	175	1 849	1 226	170	1 056
Nord du Québec region component	347	1	346			
AccèsLogis Québec for non-profit - cooperative housing						
	28 409	24 386	4 023	24 128	16 418	7 710
Emergency assistance in the context of the rental housing shortage						
2004 program	12 883	10 282	2 601	13 945	11 264	2 681
2005 program	4 071	3 143	928	2 266	2 252	14
Achat-Rénovation for non-profit, cooperative housing						
	2 670	2 670		2 125	2 125	
Assistance for community organizations	1 497	1 497		1 440	1 440	
Housing initiative in Nunavik	142	142		253	253	
Sub-total (amounts carried forward)	569 309	305 787	263 522	545 963	285 990	259 973

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2006			2005		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Amounts brought forward	569 309	305 787	263 522	545 963	285 990	259 973
Housing improvement						
Home adaptations	13 540	10 232	3 308	9 600	7 216	2 384
Rénovation Québec	10 822	5 622	5 200	11 790	2 494	9 296
RénoVillage	6 319	2 071	4 248	14 642	4 764	9 878
Assistance program for the revitalization of core areas	1 993	1 993		2 291	2 291	
Improvements to shelters	1 728	332	1 396	4 527	1 191	3 336
Assistance for owners of residential buildings damaged by pyrite oxidation	1 344	909	435	2 010	1 451	559
Home adaptations for greater autonomy of seniors	1 124	257	867	2 146	505	1 641
Emergency repairs	723	102	621	1 095	194	901
Purchase assistance in Radisson	132	132		128	128	
Radon	4	4		6	6	
Sub-total	37 729	21 654	16 075	48 235	20 240	27 995
Access to home ownership						
Access to home ownership for residents of the Kativik area	150	150		245	245	
Housing in isolated regions	48	48		(24)	(24)	
Sub-total	198	198		221	221	
Industrial support						
Support for the development of the Québec housing industry	688	688		588	588	
Various program in the termination phase (c)	(538)	(538)		304	316	(12)
Total	<u>607 386</u>	<u>327 789</u>	<u>279 597</u>	<u>595 311</u>	<u>307 355</u>	<u>287 956</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2006		2005	
	Cost	Contributions	Cost	Contributions
		Gouvernement du Québec CMHC (a)		Gouvernement du Québec CMHC (a)
Contributions				
Cost of program		327 789 279 597		307 355 287 956
Administrative expenses (Note 5)		26 990 4 488		24 802 3 651
		<u>354 779</u> <u>284 085</u>		<u>332 157</u> <u>291 607</u>

a Canada Mortgage and Housing Corporation.

b In 2006, the Société d'habitation du Québec paid the Société de gestion immobilière SHQ a total of \$2.8 million (2005: \$4.2 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, Réno et Emergency assistance in the context of the rental housing shortage (2002 and 2003 programs), Rénovation résidentielle – Radisson et Aide au logement populaire.

4. FEES

	2006	2005
Immobilière SHQ	447	501
Société de gestion immobilière SHQ	82	44
Gouvernement du Québec		35
Miscellaneous organizations	160	262
	<u>689</u>	<u>842</u>

5. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and other remuneration (Note 16)	22 889	21 058
Transportation and communications	1 569	1 604
Professional services	3 291	2 723
Maintenance and repairs	359	390
Rent	2 298	2 486
Materials and supplies	113	413
Miscellaneous subsidies	36	8
Interest on short-term borrowings (Note 10)	255	140
Amortization of capital assets	2 523	2 187
Other	73	47
	<u>33 406</u>	<u>31 056</u>

These administrative expenses are offset, to a great extent, by the following contributions:

	2006	2005
Gouvernement du Québec	26 990	24 802
Canada Mortgage and Housing Corporation	4 488	3 651
	<u>31 478</u>	<u>28 453</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

6. CASH AND CASH EQUIVALENTS

	2006	2005
Cash on hand	32 886	27 306
Short-term investment, at cost, 4.48%	6 473	26 286
	<u>39 359</u>	<u>53 592</u>

7. ACCOUNTS RECEIVABLE

	2006	2005
Contribution receivable		
Gouvernement du Québec		3 995
Canada Mortgage and Housing Corporation	26 740	28 896
Subsidy beneficiaries	7 077	7 805
Société de gestion immobilière SHQ	828	731
Advances to partners	1 177	
Accrued interest	48	71
Other	190	210
	<u>36 060</u>	<u>41 708</u>

8. RESERVED FUNDS

Reserved funds comprise centralized replacement reserves for the Private non-profit housing program— cooperatives and non-profit organizations. They are used to carry out replacement, improvement and modernization work for housing cooperatives covered by this program. The consideration for the amounts held at fiscal year-end is included under “Amounts payable” in the Société’s liabilities.

9. CAPITAL ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Capital assets			
Leasehold improvements	1 201	209	992
Equipment	5 406	4 403	1 003
	<u>6 607</u>	<u>4 612</u>	<u>1 995</u>
Intangible assets			
Computer equipment	15 707	10 433	5 274
Software	849	760	89
	<u>16 556</u>	<u>11 193</u>	<u>5 363</u>
Total	<u>23 163</u>	<u>15 805</u>	<u>7 358</u>
			<u>6 019</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

10. SHORT-TERM BORROWING

The Société d'habitation du Québec is authorized by the Gouvernement du Québec to take up short-term borrowings from financial institutions to a maximum of \$30 million up to March 31, 2010.

Any loan contracted under this authorization bears interest at the rate negotiated at the time of the borrowing, which generally corresponds to 1.5% less than the prime rate. The rate at December 31, 2006 was 4.31%.

Interest on the short-term borrowing for the fiscal year is posted to expenditures under "Administrative – Interest with short-term borrowing" (Note 5).

11. ACCOUNTS PAYABLE

	2006	2005
Subsidy beneficiaries	48 058	46 838
Suppliers and other	3 338	2 137
Société de gestion immobilière SHQ	274	274
Sums held on behalf of granting agencies (Note 15)	209	168
Gouvernement du Québec	57	52
Accrued interest	12	8
	<u>51 948</u>	<u>49 477</u>

12. PROVISION FOR VACATION TIME AND SICK LEAVE

	2006		2005	
	Vacation time	Sick leave	Vacation time	Sick leave
Balance, beginning of year	2 092	5 160	2 246	6 091
Provision for the year	1 900	667	1 863	7
Benefits paid or annulled during the year	<u>(1 929)</u>	<u>(573)</u>	<u>(2 017)</u>	<u>(938)</u>
Balance, end of year	<u>2 063</u>	<u>5 254</u>	<u>2 092</u>	<u>5 160</u>

13. DEFERRED CONTRIBUTION – CANADA MORTGAGE AND HOUSING CORPORATION

The deferred Canada Mortgage and Housing Corporation contribution is for new contributions for the fiscal years considered and covers the expenses of future fiscal years under the AccèsLogis Québec program for cooperative and non-profit housing and for the Logement abordable Québec program. Variations during the fiscal year in the balance of the deferred contribution are:

	2006	2005
Balance, beginning of year	38 789	59 395
New contributions for fiscal year	<u>6 542</u>	<u>23 042</u>
	45 331	82 437
Contributions posted to revenues for the fiscal year	<u>(32 229)</u>	<u>(43 648)</u>
Balance, end of year	<u>13 102</u>	<u>38 789</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2006

(in thousands of dollars)

14. ALLOWANCE FOR LOSSES ON LOAN GUARANTEES

	2006	2005
Balance, beginning of year	10 925	8 595
Allowance for the year	2 614	2 788
Fulfilment of guarantees	<u>(1 514)</u>	<u>(458)</u>
Balance, end of year	<u>12 025</u>	<u>10 925</u>

The allowance breaks downs by programs as:

AccèsLogis Québec for non-profit, cooperative housing	7 496	6 401
Achat-Rénovation for non-profit, cooperative housing	1 112	1 889
Logement abordable Québec – social and community component	2 571	1 789
Non-profit housing – Private	562	562
Assistance for community housing	<u>284</u>	<u>284</u>
	<u>12 025</u>	<u>10 925</u>

A recoverable Gouvernement du Québec contribution is recorded to cover this provision.

15. SUMS HELD ON BEHALF OF GRANTING AGENCIES

The amounts received from funding organizations under the AccèsLogis Québec and Achat-rénovation programs for cooperative and non-profit housing are redistributed to organizations working in the cooperative and non-profit field.

	2006	2005
Balance, beginning of year	168	261
Plus:		
Sums received	2 697	1 910
Interest income	<u>14</u>	<u>9</u>
	2 879	2 180
Minus:		
Amounts paid out	<u>2 670</u>	<u>2 012</u>
Balance, end of year	<u>209</u>	<u>168</u>

The amount held at year-end is posted to "Cash and cash equivalents» and "Accounts receivable" under the heading "Assets" and to "Accounts payable" under the heading "Liabilities".

16. PENSION PLANS

Société staff participates in the Pension Plan of Management Personnel (PPMP), Government and Public Employees Retirement Plan (RREGOP) or Civil Service Superannuation Plan (CSSP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement or death.

The Société's contributions charged to the year-end statement and recorded as administrative expenses totalled \$1.0 million (2005: \$1.0 million). Its liability towards these government plans is restricted to its employer contributions.

17. FINANCIAL INSTRUMENTS

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

The fair value of the provision for losses on loan guarantees and the corresponding Gouvernement du Québec contribution receivable equals the book value, given that the provision is reassessed annually.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2006
(in thousands of dollars)

18. COMMITMENTS

Under the programs indicated below, the Société committed to repaying the principal and interest for any borrowing incurred by organizations, up to the subsidy promised the Société. Commitments by program break down as:

	<u>2006</u>	<u>2005</u>
AccèsLogis Québec for cooperative and non-profit housing *	257 171	167 370
Rénovation Québec	66 694	46 961
Logement abordable Québec		
Social and community component *	87 648	41 921
Private component	9 077	4 577
Renewal of old districts	15 256	13 947
Achat-rénovation for cooperative and non-profit housing *	<u>11 017</u>	<u>12 511</u>
	<u>446 863</u>	<u>287 287</u>

Assuming the refinancing occurs on maturity at the same conditions as the date the financial statements were signed, the schedule of payments of principal over the coming fiscal years is:

2007	27 474
2008	28 659
2009	29 804
2010	31 011
2011	32 278
2012 to 2016	170 272
2017 to 2021	<u>127 365</u>
	<u><u>446 863</u></u>

* The Société holds a mortgage guaranty on the immoveables targeted by these commitments in order to ensure that the organizations comply with the conditions assumed by the latter under the terms of the operating agreement between the Société and the organizations.

19. CONTINGENCIES**Secured loans (1)**

The Société guarantees the repayment of loans granted by financial institutions to organizations benefitting from AccèsLogis Québec programs for non-profit, cooperative housing, Achat-rénovation for non-profit, cooperative housing and Logement abordable Québec – social and community component.

The repayment guarantees include secured loans, before the completion of the housing projects, in the form of credit lines and mortgage credit lines, to ensure the start-up loan and interim financing. The amount of these loans totalled \$145 million at December 31, 2006 (2005: \$233 million).

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2006

(in thousands of dollars)

19. CONTINGENCIES (cont'd)

Secured loans (1) (cont'd)

Once housing project construction has been completed, these loans will be divided in two to ensure long-term financing. One loan, corresponding to the amount of financial assistance granted by the Société as a subsidy promise for up to 15 years, will become a Société commitment (Note 18). The other, corresponding to the unsubsidized portion of the housing projects, will be guaranteed by the Société for a period of 25 or 35 years following acceptance of an extension by the Société. The loan amount corresponding to the unsubsidized portion totalled \$468 million at December 31, 2006 (2005: \$338 million).

The Société has recourses enabling it to recover the amounts paid after the guarantee comes into play. After the Société repays the guarantee to the financial institution, the latter subrogates the Société in all of its rights, titles and interests, including those of a first mortgage loan. The nature of the assets obtained through these recourses comprises immoveables subsidized under the above-mentioned programs.

Other guarantees (1)

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 \$359 million at December 31, 2006 (2005: \$373 million).

Housing initiative in Nunavik program

Under this program, the Société made the commitment contribute amounts equal to those received by the Office municipal d'habitation Kativik in rental arrears prior to December 31, 1999 up to \$2.9 million. The balance of this commitment was \$1.5 million at December 31, 2006 (2005: \$1.6 million).

Lawsuits

The balance of court proceedings in damages and interest instituted against the Société totals \$4.4 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.

(1) The programs for which a provision on losses on loan guarantees is required are disclosed in Note 14.

20. RELATED PARTY TRANSACTIONS

During the fiscal year, the Société carried out transactions with Immobilière SHQ, a jointly controlled entity, and with the Société de gestion immobilière SHQ, a related party through members of the board. The amount of these transactions measured at exchange value and the resulting balances are presented separately in the Société's financial statements.

In addition to the related party transactions disclosed in its financial statements an recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not 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. COMPARATIVE FIGURES

Certain 2005 figures were reclassified for consistency with the presentation adopted in 2006.

SOCIÉTÉ D'HABITATION DU QUÉBEC**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal audit and investigations department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The Board of Directors must oversee the manner in which management performs its financial reporting duties, meet with management and the Auditor General, and review the financial statements.

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

Robert Madore
President and Chief Executive Officer

André Filion
Vice-President, Business Strategies and Administration

Québec, March 22, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société d'habitation du Québec as at December 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 22, 2007

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
(R.S.Q., c. S-14.001)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Space rental for events	\$2 181 893	\$1 945 066
Royalties (Note 3)	1 556 617	1 440 898
Auxiliary operations (Note 4)	1 877 537	1 647 184
Other	309 005	270 345
	<u>5 925 052</u>	<u>5 303 493</u>
EXPENSES		
Event hosting – expenses (Note 5)	1 546 043	1 331 472
Administrative and operating expenses (Note 6)	7 889 219	7 822 172
Taxes	4 163 446	3 641 695
Financial expenses – net (Note 7)	2 992 875	2 619 341
	<u>16 591 583</u>	<u>15 414 680</u>
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(10 666 531)	(10 111 187)
Gouvernement du Québec operating subsidy (Note 8)	<u>12 098 011</u>	<u>10 974 483</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEMS:	1 431 480	863 296
Gain on sale of capital assets	3 100	11 270
Gouvernement du Québec subsidy for capital assets and deferred expenses (Note 8)	2 311 929	1 989 524
Amortization of capital assets	(3 353 231)	(2 973 122)
Amortization of intangible assets	(117 946)	(117 946)
Amortization of deferred contributions (Note 14)	1 100 714	1 112 376
Amortization of deferred expenses	(65 600)	(59 354)
EXCESS REVENUES OVER EXPENSES	<u>\$1 310 446</u>	<u>\$826 044</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBECSTATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	\$1 976 812	\$1 150 768
Excess revenues over expenses	<u>1 310 446</u>	<u>826 044</u>
BALANCE, END OF YEAR	<u>\$3 287 258</u>	<u>\$1 976 812</u>
Cumulated surplus invested in capital assets	\$898 709	\$583 958
Cumulated surplus reserved for major maintenance	1 400 000	600 000
Cumulated unappropriated surplus	<u>988 549</u>	<u>792 854</u>
	<u>\$3 287 258</u>	<u>\$1 976 812</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$1 495 236	\$858 019
Term deposits at 4.03% (2006: 3.45%)	2 150 000	1 000 000
Accounts receivable	659 049	2 709 480
Prepaid expenses	1 022 188	1 021 972
	<u>5 326 473</u>	<u>5 589 471</u>
Capital assets (Note 9)	96 350 293	98 458 816
Intangible assets (Note 10)	145 956	263 902
Deferred expenses at amortized cost	<u>126 339</u>	<u>74 215</u>
	<u><u>\$101 949 061</u></u>	<u><u>\$104 386 404</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	\$2 914 003	\$20 178 849
Customer deposits	1 188 065	867 260
Deferred proceeds	109 656	147 390
Instalments on long-term debt (Note 15)	3 674 314	3 896 786
	<u>7 886 038</u>	<u>25 090 285</u>
Deferred Gouvernement du Québec subsidy (Note 13)	9 070 878	7 580 818
Deferred contributions (Note 14)	22 874 877	23 975 591
Long-term debt (Note 15)	<u>57 297 760</u>	<u>44 230 648</u>
	<u>97 129 553</u>	<u>100 877 342</u>
EQUITY		
Contributed surplus (Note 17)	1 532 250	1 532 250
Cumulated surplus invested in capital assets	898 709	583 958
Cumulated surplus reserved for major maintenance	1 400 000	600 000
Cumulated unappropriated surplus	988 549	792 854
	<u>4 819 508</u>	<u>3 509 062</u>
	<u><u>\$101 949 061</u></u>	<u><u>\$104 386 404</u></u>

COMMITMENTS (Note 20)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
P.-Michel Bouchard, Chairman of Board of Directors and Director
Paule-Anne Morin, Director, Adm. A., CMC

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**STATEMENT OF CASH FLOWS**
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Cash receipts – clients	\$8 319 811	\$3 211 444
Cash receipts – Gouvernement du Québec subsidy	15 900 000	11 314 999
Disbursements – suppliers and staff members	(15 644 968)	(10 789 125)
Interest earned	140 585	83 500
Interest paid	<u>(3 023 621)</u>	<u>(2 785 527)</u>
Cash flows related to operating activities	<u>5 691 807</u>	<u>1 035 291</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(16 634 606)	(386 159)
Revenue from the sale of capital assets	<u>3 100</u>	<u>11 270</u>
Cash flows related to investment activities	<u>(16 631 506)</u>	<u>(374 889)</u>
FINANCING ACTIVITIES		
Long-term debt	16 700 000	
Long-term debt repayment	<u>(3 973 084)</u>	<u>(3 723 125)</u>
Cash flows related to financing activities	<u>12 726 916</u>	<u>(3 723 125)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 787 217	(3 062 723)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 858 019</u>	<u>4 920 742</u>
CASH AND CASH EQUIVALENTS, END OF YEAR ¹	<u><u>\$3 645 236</u></u>	<u><u>\$1 858 019</u></u>

1 Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2007</u>	<u>2006</u>
Cash on hand	\$1 495 236	\$858 019
Term deposits	<u>2 150 000</u>	<u>1 000 000</u>
	<u><u>\$3 645 236</u></u>	<u><u>\$1 858 019</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2007

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Centre des congrès de Québec was established under a special act (R.S.Q., c. S-14.001) on July 1, 1993 to:

- manage and operate the Québec City Convention Centre;
- prepare development or operational plans for Convention Centre;
- carry on such commercial and other activities as may foster the development of the Convention Centre and take up their operation, promotion and management.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, consequently, is not subject to Québec or Canadian income tax.

2. ACCOUNTING POLICIES

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

Term deposits

Term deposits are recorded using cost or net realization value, whichever is less.

Capital assets

The land and building, which were acquired for a nominal fee of \$1 on January 1, 1994, were recorded at their municipal assessment value at this date. Other capital assets are recorded at cost.

Capital assets are amortized in accordance with the straight-line method according to their estimated service life as follows:

Buildings	40 years
Furniture and equipment	3 and 5 years

The Société regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows the asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimated future cash flows and determination of fair value requires the exercise of professional judgement and may vary over time.

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized in accordance with the straight-line method over the estimated service life, i.e. 5 years.

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

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

Deferred expenses

Long-term debt issuing and management expenses are deferred and amortized in accordance with the straight-line method over the duration of the borrowing.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

2. ACCOUNTING POLICIES (cont'd)**Deferred Gouvernement du Québec subsidy**

The Government committed to paying the Société the amount it needs to cover its obligations on its borrowings from the Financing Fund for the acquisition of capital assets and the issuing and management fees for these borrowings, after having ensured that the Société is unable to do so.

The deferred Gouvernement du Québec subsidy corresponds to the difference between the total interest charges on borrowings for the acquisition of capital assets and the cumulated amortization on these capital assets and on the deferred expenses financed by these borrowings and total Gouvernement du Québec subsidies received to enable the payment of these borrowings.

Deferred contribution

The contributions received for the acquisition of amortizable capital assets and those received in the form of amortizable capital assets are reported and transferred to results using the same method and service life estimates as the capital assets they pertain to.

Currency conversion

Assets and liabilities expressed in foreign currency are converted into Canadian dollars at the rate in effect the date of the financial statement. Revenues and expenses are converted at the exchange rate in effect the day of the transaction. Gains and losses on foreign exchange are charged to the fiscal year's operations.

Revenue reporting

Revenue from space rental and delivery of auxiliary services are posted as the services are rendered. Any difference in the amount received and the amount posted to revenue is indicated in the balance sheet under client or debtor deposits. Royalties are posted as they are earned in keeping with contractual conditions.

Investment operations are posted on the settlement date and the resulting income is posted on an accrual basis. Interest income is posted according to the number of days the investment is held during the fiscal year.

Subsidy reporting

The Société uses the deferred method to report subsidies. Subsidies allocated are posted to revenue the fiscal year in which the related charges were incurred. Operating subsidies are posted to revenue the fiscal year in which they were granted. The subsidy for capital assets and deferred expenses represents the government contribution to repayment of the long-term debt for financing amortizable capital assets and the related deferred expenses, which corresponds to the amortization of these capital assets and the issuing and management fees for the deferred long-term debt.

Pension plans

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

Cash and cash equivalents

It is the Société's policy to present bank balances, short-term borrowings and short-term investments that are easily convertible in the short term to a known amount of cash, whose value is not expected to change significantly, under cash and cash equivalents.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 as at March 31, 2007

3. ROYALTIES

	2007	2006
Food services	\$1 248 669	\$1 160 759
Audiovisual services	286 009	265 039
Other	21 939	15 100
	<u>\$1 556 617</u>	<u>\$1 440 898</u>

4. AUXILIARY OPERATIONS

	2007	2006
Furnishings and furniture	\$755 934	\$707 268
Electricity, plumbing	429 087	379 397
Telecommunications	271 670	269 639
Audiovisual, sound and lighting	96 560	97 263
Information, box office and cloakroom	131 869	92 913
Security	44 113	36 456
Cleaning services	15 587	15 218
Other	132 717	49 030
	<u>\$1 877 537</u>	<u>\$1 647 184</u>

5. HOSTING OF EVENTS - EXPENSES

	2007	2006
Furnishings and furniture	\$757 783	\$684 401
Electricity, plumbing	153 201	140 884
Telecommunications	10 927	17 432
Audiovisual, sound and lighting	14 018	15 025
Information, box office and cloakroom	236 674	195 997
Security	106 366	102 004
Cleaning services	149 578	129 297
Other	117 496	46 432
	<u>\$1 546 043</u>	<u>\$1 331 472</u>

6. OPERATING AND ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	\$4 082 302	\$4 217 600
Insurance and permits	132 894	142 152
Power and heating	742 279	710 864
Caretaking	342 388	338 181
Cleaning services	210 510	189 380
Specialized maintenance services	751 931	613 320
Maintenance and repairs	609 940	664 385
Promotion and communication	785 781	600 418
Professional and administrative services	227 804	233 870
Professional development	65 050	40 666
Bad and doubtful debts (recovered)	(61 660)	71 336
	<u>\$7 889 219</u>	<u>\$7 822 172</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

7. NET FINANCIAL EXPENSES

	2007	2006
Interest on long-term debt	\$2 893 160	\$2 685 943
Exchange loss	575	4 594
Other interest and bank expenses	300 982	12 570
	3 194 717	2 703 107
Interest on bank balances and term deposits	(201 842)	(83 766)
	<u>\$2 992 875</u>	<u>\$2 619 341</u>

8. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2007	2006
Operating subsidy:		
Subsidy received for the year	\$15 900 000	\$14 740 000
Receipt – Subsidy for debt service	(6 983 062)	(6 491 488)
	8 916 938	8 248 512
- Transfer of the amount of the subsidy received for sick leave and vacation time		40 978
- Contribution for payment of interest on long-term debt and related short-term borrowings contracted to finance capital assets	3 181 073	2 684 993
Total of the operating subsidy	12 098 011	10 974 483
Subsidy for capital assets and deferred expenses:	2 311 929	1 989 524
	<u>\$14 409 940</u>	<u>\$12 964 007</u>

9. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Land	\$5 618 150		\$5 618 150	\$5 618 150
Buildings	117 965 361	\$27 981 852	89 983 509	91 812 107
Furniture and equipment	1 732 885	984 251	748 634	1 028 559
	<u>\$125 316 396</u>	<u>\$28 966 103</u>	<u>\$96 350 293</u>	<u>\$98 458 816</u>

10. INTANGIBLE ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Software	\$595 902	\$449 946	\$145 956	\$263 902

11. SHORT-TERM BORROWINGS

The Société is authorized, under a short-term borrowing plan, to contract short-term borrowings of up to \$4 000 000 until June 30, 2009. At March 31, 2006 and 2007, the Société had no short-term borrowings.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007**11. SHORT-TERM BORROWINGS (cont'd)**

To ensure repayment of the capital and interest for borrowings from the Minister of Finance, under this borrowing scheme, the Gouvernement du Québec committed to paying the Société the amounts required to cover its obligations should it be unable to do so for one or more of its borrowings.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Current operations	\$2 696 182	\$2 415 667
Capital assets – jointly-controlled entity	181 417	15 576 317
Capital assets – other	9 738	4 736
GST/QST – capital assets	26 666	2 182 129
	<u>\$2 914 003</u>	<u>\$20 178 849</u>

13. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDY

	2007	2006
The deferred subsidy breaks down as:		
Balance, beginning of year	\$7 580 818	\$9 229 826
Amortization of capital assets, intangible assets and deferred expenses financed over the long term	(2 311 929)	(1 989 524)
Interest on borrowings	<u>(3 181 073)</u>	<u>(2 684 993)</u>
	2 087 816	4 555 309
Government subsidies received	<u>6 983 062</u>	<u>3 025 509</u>
Balance, end of year	<u><u>\$9 070 878</u></u>	<u><u>\$7 580 818</u></u>

This balance pertains to the following balance sheet items:

	2007	2006
Financing Fund borrowings (Note 15)	\$(60 972 074)	\$(48 127 434)
Unamortized cost of capital assets, intangible assets and deferred expenses financed over the long term	<u>71 339 994</u>	<u>56 834 198</u>
	10 367 920	8 706 764
Interest on borrowings	<u>(1 297 042)</u>	<u>(1 125 946)</u>
	<u><u>\$9 070 878</u></u>	<u><u>\$7 580 818</u></u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007**14. DEFERRED CONTRIBUTIONS**

	2007	2006
Deferred Gouvernement du Québec contribution:		
Opening balance	\$1 207 714	\$1 564 491
Transfer to revenue of an amount equivalent to the amortization of related capital assets ¹	(345 115)	(356 777)
	<u>862 599</u>	<u>1 207 714</u>
Deferred City of Québec contribution: ²		
Opening balance	2 236 627	2 317 226
Transfer to revenue of an amount equivalent to building amortization ¹	(80 599)	(80 599)
	<u>2 156 028</u>	<u>2 236 627</u>
Deferred Government of Canada contribution:		
Opening balance	20 531 250	21 206 250
Transfer to revenue of an amount equivalent to building amortization ¹	(675 000)	(675 000)
	<u>19 856 250</u>	<u>20 531 250</u>
	<u>\$22 874 877</u>	<u>\$23 975 591</u>

1 Amortization of deferred contributions for the year amounts to \$1 100 714 (March 31, 2006: \$1 112 376).

2 Represents the transfer by the Ville de Québec on January 1, 1994 of a building for the symbolic value of \$1 reported at the municipal assessment value at this date.

15. LONG-TERM DEBT

With the Gouvernement du Québec Financing Fund

	2007	2006
Notes payable		
Fixed rate of 5.468%/year (actual rate 5.543%), repayable in semi-annual instalments of \$2 873 946, capital and interest, ending April 26, 2007 ^{1, 2}	\$42 152 114	\$45 458 908
Fixed rate of 5.385%/year (actual rate 5.457%), repayable in semi-annual instalments of \$79 807 in capital, ending October 1, 2012 ¹	1 755 749	1 915 362
Fixed rate of 4.306%/year (actual rate 4.376%), repayable in quarterly instalments of \$107 595 in capital, ending October 1, 2007 ¹	322 785	753 164
Fixed rate of 4.531%/year (actual rate 4.582%), repayable in quarterly instalments of \$569 173, capital and interest, ending December 1, 2016 ^{1, 3}	16 741 426	48 127 434
	<u>60 972 074</u>	<u>48 127 434</u>
Instalments due within one year	<u>(3 674 314)</u>	<u>(3 896 786)</u>
	<u>\$57 297 760</u>	<u>\$44 230 648</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 as at March 31, 2007

16. LONG-TERM DEBT (cont'd)

Repayment of the principal on the long-term debt over the next five fiscal years is:

2008	\$3 674 314
2009	2 564 324
2010	2 671 403
2011	2 783 251
2012	2 900 081

- 1 To ensure repayment of the principal and interest for borrowings contracted under the borrowing scheme set up by the Société, the Gouvernement du Québec committed to paying the Société the amounts required to cover its obligations should it be unable to do so for one or more of these borrowings.
- 2 In April 2007, the Société obtained refinancing for a note payable in effect from April 26, 2007 and maturing on October 1, 2013.
- 3 During the year, the Société contracted a note payable of \$16 700 000 plus financing charges of \$117 724. This amount was capitalized in deferred expenses.

16. FINANCIAL INSTRUMENTS
Fair value

The following methods and assumptions were used to estimate the fair value of the financial instruments in the balance sheet.

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the short term.

The fair value of the elements of the long-term debt is determined using the actualized value of future cash flows under current financing agreements, at interest rates offered on the market to the Société for borrowings with similar conditions and terms. The fair value is:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	\$60 972 074	\$62 440 080	\$48 127 434	\$49 932 446

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 its financial assets' book value. 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 transactions in foreign currency. It does not hold or issue financial instruments to manage the risks to which it is exposed. However, these risks do not significantly influence its results or financial position.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

17. CONTRIBUTED SURPLUS

This represents the City of Québec's transfer of a building recorded at its municipal value on January 1, 1994, on that date and for the nominal fee of \$1.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to joint control or significant influence by it. The Société did not 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. FUTURE FRINGE BENEFITS**Pension plans**

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

The Société's contributions charged to the year-end statement totalled \$169 676 (March 31, 2006: \$181 337). Its liability towards this Government plan is restricted to its employer contributions.

20. COMMITMENTS**Long-term contracts**

The Société is committed under long-term contracts terminating on various dates up to February 28, 2010 for regular and specialized maintenance services.

Minimum future payments under these commitments are:

2008	\$613 835
2009	348 106
2010	51 212
	<u>\$1 013 153</u>

21. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société du Centre des congrès de Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

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

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

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

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

Michel Bureau
Director Administration

P.-Michel Bouchard
President and Chief Executive Officer

Québec, May 18, 2007

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société du Centre des congrès de Québec as at March 31, 2007 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and 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, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 18, 2007

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
(R.S.Q., c. S-14.01)

STATEMENT OF OPERATIONS
for the year ended August 31, 2006

	2006			2005
	Operating Fund	Cultural Development Fund	Total	Total
REVENUES				
Gouvernement du Québec subsidies (Note 3)	\$4 680 420		\$4 680 420	\$4 523 217
Performance production and presentation (Note 4)	1 508 670		1 508 670	1 015 244
Ticket office	1 815 172		1 815 172	1 841 815
Rent – auditoriums	840 741		840 741	836 084
Theatrical services	898 121		898 121	941 197
Customer service	104 859		104 859	119 739
Parking	103 727		103 727	110 483
Interest	94 999		94 999	80 672
Other	49 925		49 925	66 244
	<u>10 096 634</u>		<u>10 096 634</u>	<u>9 534 695</u>
EXPENSES (Note 5)				
Performance production and presentation (Note 4)	1 510 211	\$10 000	1 520 211	1 140 031
Box office operations	1 480 411		1 480 411	1 531 325
Auditorium operations	357 639		357 639	352 789
Theatrical services	1 323 200		1 323 200	1 249 629
Marketing	557 496	23 828	581 324	559 207
Administrative services	777 525		777 525	699 635
Maintenance and caretaking	1 523 406		1 523 406	1 454 202
Electricity	408 274		408 274	400 088
Municipal and school taxes	465 290		465 290	465 362
Financial expenses	536 823		536 823	545 580
Amortization of capital assets	1 142 591		1 142 591	1 130 134
	<u>10 082 866</u>	<u>33 828</u>	<u>10 116 694</u>	<u>9 527 982</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$13 768</u>	<u>\$(33 828)</u>	<u>\$(20 060)</u>	<u>\$6 713</u>

STATEMENT OF CHANGE IN FUND BALANCES
for the year ended August 31, 2006

	2006			2005
	Operating Fund	Cultural Development Fund	Total	Total
BALANCE, BEGINNING OF YEAR	\$125 148	\$1 014 721	\$1 139 869	\$1 133 156
Excess (deficiency) of revenues over expenses	<u>13 768</u>	<u>(33 828)</u>	<u>(20 060)</u>	<u>6 713</u>
BALANCE, END OF YEAR	<u>\$138 916</u>	<u>\$980 893</u>	<u>\$1 119 809</u>	<u>\$1 139 869</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**BALANCE SHEET**
as at August 31, 2006

	2006		2005
	Operating Fund	Cultural Development Fund	Total
			Total
ASSETS			
Current assets			
Cash on hand	\$1 122 435		\$1 122 435
Term deposits (Note 6)	1 352 237		1 352 237
Accounts receivable	444 625		444 625
Interfund payables, interest-free, no repayment conditions		\$980 893	
Gouvernement du Québec subsidies receivable (Note 7)	1 254 386		1 254 386
Supplies	77 838		77 838
Prepaid expenses	227 742		227 742
	4 479 263	980 893	4 479 263
Cash reserved for asset maintenance	84 036		84 036
Gouvernement du Québec subsidies receivable (Note 7)	9 319 553		9 319 553
Capital assets (Note 8)	21 639 802		21 639 802
Deferred expenses	54 396		54 396
	<u>\$35 577 050</u>	<u>\$980 893</u>	<u>\$35 577 050</u>
			<u>\$36 955 789</u>
LIABILITIES			
Current liabilities			
Bank loans (Note 9)	\$1 124 726		\$1 124 726
Deposits – ticket sales	1 109 694		1 109 694
Accounts payable and accrued liabilities	1 128 575		1 128 575
Interfund payables, interest-free, no repayment conditions	980 893		
Accrued interest	201 615		201 615
Gouvernement du Québec deferred subsidies (Note 10)	163 757		163 757
Revenue collected in advance	47 775		47 775
Instalments of the long-term debt (Note 11)	1 026 373		1 026 373
	5 783 408		4 802 515
Gouvernement du Québec deferred subsidies (Note 10)	17 197 601		17 197 601
Long-term debt (Note 11)	7 835 555		7 835 555
	<u>30 816 564</u>		<u>29 835 671</u>
			<u>31 194 350</u>
EQUITY			
Gouvernement du Québec contribution (Note 12)	4 621 570		4 621 570
Fund balance	138 916	\$980 893	1 119 809
	<u>4 760 486</u>	<u>980 893</u>	<u>5 741 379</u>
	<u>\$35 577 050</u>	<u>\$980 893</u>	<u>\$35 577 050</u>
			<u>\$36 955 789</u>

COMMITMENTS (Note 13)

On behalf of the Board of Directors,
Adélard Guillemette
François G. Fortier

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended August 31, 2006

	2006			2005
	Operating Fund	Cultural Development Fund	Total	Total
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$13 768	\$(33 828)	\$(20 060)	\$6 713
Adjustments for:				
Amortization of deferred subsidies	(1 962 227)		(1 962 227)	(1 813 184)
Amortization of capital assets	1 142 591		1 142 591	1 130 134
Amortization of deferred expenses	8 049		8 049	7 380
	(797 819)	(33 828)	(831 647)	(668 957)
Change in elements linked to operations				
Debtors	181 631		181 631	268 539
Supplies	1 236		1 236	(4 161)
Prepaid expenses	13 143		13 143	(78 812)
Subsidies receivable	5 824		5 824	(402 978)
Deferred expenses	(18 288)		(18 288)	(19 580)
Deposits – ticket sales	(138 075)		(138 075)	357 722
Suppliers and accruals	(348 230)		(348 230)	(882 750)
Accrued interest	(26 030)		(26 030)	(27 445)
Deferred subsidies	1 116 043		1 116 043	1 501 045
Revenue collected in advance	(61 412)		(61 412)	(9 361)
Cash flows related to operating activities	(71 977)	(33 828)	(105 805)	33 262
FINANCING ACTIVITIES				
Bank loans	216 720		216 720	(911 994)
Long-term debt	2 612 571		2 612 571	2 750 346
Repayment of long-term debt	(2 675 908)		(2 675 908)	(1 910 005)
Cash flows related to financing activities	153 383		153 383	(71 653)
INVESTMENT ACTIVITIES				
Cash reserved for asset maintenance	6 263		6 263	(13 094)
Acquisition of capital assets	(382 309)		(382 309)	(664 079)
Cash flows related to investment activities	(376 046)		(376 046)	(677 173)
CHANGE IN CASH AND CASH EQUIVALENTS	(294 640)	(33 828)	(328 468)	(715 564)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2 803 140		2 803 140	3 518 704
INTERFUND TRANSFER	(33 828)	33 828		
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u>\$2 474 672</u>	<u></u>	<u>\$2 474 672</u>	<u>\$2 803 140</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person under the Civil Code, the Société du Grand Théâtre de Québec was established under the Act respecting the Société du Grand Théâtre de Québec (R.S.Q., c. S-14.01) to operate a performing arts dissemination enterprise and administer the Grand Théâtre de Québec or any other establishment the Government mandates it to manage.

These activities are designed, in particular, to provide a home for major artistic organizations, encourage access to the different forms of performing arts, and promote Québec's artistic and cultural life.

Under section 32 of its incorporating legislation, the Société funds its activities through its receipts and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the Government decides otherwise.

Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Société is not subject to income taxes.

2. ACCOUNTING POLICIES

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

Fund accounting

The Operating Fund presents the Société's current operations.

The Cultural Development Fund is designed to support projects and activities contributing to cultural life and diversified artistic activities, providing information and developing new audiences and promoting public access to the creations of domestic and foreign artists. Apart from interest earned, it comprises transfers from the Operating Fund, gifts, sponsorships, other external contributions and proceeds from ticket sales for productions issuing from this Fund.

Revenue reporting

The Société uses the deferred method to record revenue. Appropriated revenue is recorded in the fiscal year in which the related expenses are incurred. Unappropriated revenue is posted when it is received or receivable if the amount can be reasonably estimated and its reception is reasonably certain. Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which the Société carries out the work or obtains the funding making it eligible for these subsidies.

Capital assets

The property and building, acquired from the Gouvernement du Québec for a nominal amount, are posted at the municipal assessment value on the date of acquisition. Other acquisitions are recorded at cost, which includes materials, direct labour, professional fees and other direct expenses. Capital assets are amortized in accordance with the straight-line method over their estimated service life:

Building	40 years
Major extensions and repairs to building	15 years
Technical stage equipment	10 years
Office furniture and equipment	5 years
Data processing equipment	3 years

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006

2. 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 to which these expenses are related.

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

It is the Société's policy to present short-term investments, that are very liquid and easily convertible into a known amount of cash, whose value is unlikely to change significantly, under cash and cash equivalents.

Pension plan

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

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2006	2005
Ministère de la Culture et des Communications		
- Operating subsidy *	\$2 359 255	\$2 334 062
Interest on long-term debt	524 449	538 044
Amortization of deferred Gouvernement du Québec subsidies **	1 796 716	1 651 111
	<u>\$4 680 420</u>	<u>\$4 523 217</u>

* The operating subsidy reflects property taxes of \$218 927 (2005: \$217 049) assumed by the Société. The subsidy also reflects the Société's obligation to provide free lodging for the Conservatoire de musique de Québec, in keeping with the conditions linked to transferring ownership of the property and the building. The book value of this obligation is \$455 388 (2005: \$490 210) and entails the share attributable to the Conservatoire de musique de Québec for operating costs and property taxes.

** In addition to including an amount for the amortization of capital assets, this amount includes a sum for the amortization of deferred expenses and an amount used to finance current expenses for assets maintenance. The total breaks down as:

	2006	2005
Capital assets	\$1 142 591	\$1 130 134
Deferred expenses	8 049	7 380
Maintenance and repairs	472 521	513 597
Theatrical services	173 555	
	<u>\$1 796 716</u>	<u>\$1 651 111</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**4. PERFORMANCE PRODUCTION AND PRESENTATION**

The Société exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the Société's year-end statement at the fair value of the goods and services exchanged, which increased the Société's revenue and expenditure for performance production and presentation for an amount of \$230 491 (2005: \$141 954).

5. EXPENSES BY CATEGORY

	2006		2005
	Operating Fund	Cultural Development Fund	Total
Salaries and fringe benefits	\$3 465 699		\$3 465 699
Amortization of capital assets	1 142 591		1 142 591
Building maintenance and repairs	945 438		945 438
Ticket office sales costs	753 630		753 630
Artistic fees	804 543	\$10 000	814 543
Financial expenses	536 823		536 823
Insurance, municipal and school taxes	517 943		517 943
Advertising	612 206	23 828	636 034
Electricity	408 274		408 274
Security guard	252 048		252 048
Equipment purchases, maintenance and repairs	369 536		369 536
Transport et communications	104 101		104 101
Supplies	108 514		108 514
Professional fees	34 407		34 407
Equipment rental	27 113		27 113
	<u>\$10 082 866</u>	<u>\$33 828</u>	<u>\$10 116 694</u>
			<u>\$9 527 982</u>

6. TERM DEPOSITS

Term deposits bear interest at a rate varying from 2.55% to 4.00% (2005: 1.00% to 2.40%).

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Short-term Gouvernement du Québec subsidies receivable correspond to the interest charged on the long-term debt, the interest paid and not reimbursed on the bank loans, and reimbursement of capital on the long-term debt in the next fiscal year.

Long-term subsidies receivable correspond to total Gouvernement du Québec commitments for capital assets and their maintenance minus reimbursement of principal on the long-term debt to be made in the next fiscal year. These subsidies are cashable in keeping with the instalments on the long-term debt related to them.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 August 31, 2006

8. CAPITAL ASSETS

	2006		2005	
	Cost or stated value	Accumulated depreciation	Net	Net
Land	\$4 621 570		\$4 621 570	\$4 621 570
Building	23 901 091	\$9 709 819	14 191 272	14 788 799
Major extensions and repairs to the building	5 141 211	3 587 572	1 553 639	1 746 110
Technical stage equipment	5 636 279	4 428 843	1 207 436	1 258 658
Office furniture and equipment	343 213	295 418	47 795	42 537
Data processing equipment	229 198	211 108	18 090	34 541
	<u>\$39 872 562</u>	<u>\$18 232 760</u>	<u>\$21 639 802</u>	<u>\$22 492 215</u>

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, 2006, the Société had not used this credit line.

The Gouvernement du Québec authorized the Société to borrow the following amounts for capital assets maintenance:

	2006	2005
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$841 300 bearing interest at the prime rate, maturing on October 31, 2006.	\$557 000	\$290 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$840 700 bearing interest at the prime rate, maturing on October 31, 2006.	460 006	84 006
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$816 700 bearing interest at the prime rate, maturing on October 31, 2006.	107 720	
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$857 200 bearing interest at the prime rate, maturing on November 30, 2005.		534 000
	<u>\$1 124 726</u>	<u>\$908 006</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for assets maintenance is \$2 498 700 (2005: \$2 539 200).

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006**10. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDIES**

Deferred subsidies are related to capital assets and their maintenance and property taxes and other expenses for future fiscal years. Changes in the balance for the fiscal year are:

	2006	2005
Balance, beginning of year	\$18 207 542	\$18 519 681
Subsidies recognized as revenue for the fiscal year	<u>(1 347 341)</u>	<u>(1 271 734)</u>
	16 860 201	17 247 947
Subsidies received during the year designed to cover expenses for future fiscal years	<u>501 157</u>	<u>959 595</u>
	17 361 358	18 207 542
Subsidies designed to cover expenses for the next fiscal year	<u>(163 757)</u>	<u>(165 511)</u>
Balance, end of year	<u>\$17 197 601</u>	<u>\$18 042 031</u>

11. LONG-TERM DEBT

	Rate in effect	2006	2005
Borrowings from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec			
• Fixed rate of 6.0364%, repayable in annual instalments of \$182 369 until December 1, 2009 and by an instalment of \$1 276 580 on December 1, 2010	4.26%	\$2 006 054	\$2 188 423
• Fixed rate of 4.311%, repayable in annual instalments of \$42 293 until October 1, 2008	4.17%	126 878	169 171
• Fixed rate of 5.343%, repayable in annual instalments of \$211 837 until October 1, 2013	4.39%	1 694 695	1 906 532
• Fixed rate of 4.106%, repayable in annual instalments of \$217 892 until May 10, 2010	4.23%	871 568	1 089 460
• Fixed rate of 4.90%, repayable in annual instalments of \$110 726 until July 16, 2020	4.70%	1 550 161	1 660 887
• Fixed rate of 4.622%, repayable in annual instalments of \$174 933 until March 31, 2016	4.53%	1 749 329	
• Fixed rate of 4.692%, repayable in annual instalments of \$86 324 until March 31, 2016	4.53%	863 243	
• Fixed rate of 5.673%, repayable in annual instalments of \$173 708 until April 11, 2005 and by an instalment of \$1 910 792 on April 11, 2006			1 910 792
		<u>8 861 928</u>	<u>8 925 265</u>
Instalments due within one year		<u>1 026 373</u>	<u>2 675 908</u>
		<u>\$7 835 555</u>	<u>\$6 249 357</u>

Repayment of principal on the long-term debt over the next five fiscal years is:

2007	\$1 026 373
2008	1 026 373
2009	1 026 373
2010	984 080
2011	1 860 400

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006

12. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The amount of the surplus contribution corresponds to the property's municipal assessment and the acquisition date.

13. COMMITMENTS

The Société has commitments to service suppliers for building cleaning and maintenance and equipment repairs. The minimum future payments regarding these commitments break down as:

2007	\$501 460
2008	180 635

14. CASH FLOWS

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

	2006	2005
Cash on hand	\$1 122 435	\$1 458 004
Term deposit	1 352 237	1 345 136
	<u>\$2 474 672</u>	<u>\$2 803 140</u>

Interest on the long-term debt paid by the Société during the fiscal year totalled \$550 480 (2005: \$565 489).

Capital asset acquisitions for the fiscal year totalled \$290 178 (2005: \$675 118), with capital assets of \$52 544 (2005: \$144 375) included in accounts payable as at August 31, 2006. Outpayments totalling \$382 309 (2005: \$664 079) were made for the purchase of capital assets.

15. FUTURE FRINGE BENEFITS

Pension plans

The Société contributes to three pension plans in which certain staff members participate. Two of them are defined-contribution pension plans and include guaranteed payments on retirement, loss of employment and death and the other is the inter-enterprise defined-benefit plan Pension Plan of Management Personnel (PPMP), which includes guarantees on retirement and death.

The Société's contributions charged to the year-end statement totalled \$180 905 (2005: \$178 587). Its liability towards these plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2006			2005
	Sick leave	Vacation time	Total	Total
Balance, beginning of year	\$28 231	\$141 990	\$170 221	\$203 650
Expenses	30 778	278 278	309 056	268 634
Benefits paid	<u>(29 224)</u>	<u>(272 587)</u>	<u>(301 811)</u>	<u>(302 063)</u>
Balance, end of year	<u>\$29 785</u>	<u>\$147 681</u>	<u>\$177 466</u>	<u>\$170 221</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2006

16. FAIR VALUE OF FINANCIAL INSTRUMENTS**Gouvernement du Québec subsidy receivable**

The fair value of subsidies receivable of \$10 573 939 cannot be evaluated given the absence of a market for this type of financial instrument.

Long-term debt

Given the actualization of cash flows at the market rate for titles with similar terms and interest rates, the fair value of the long-term debt is:

	<u>2006</u>	<u>2005</u>
Book value	\$8 861 928	\$8 925 265
Fair value	9 261 805	9 545 538

Other financial instruments

The book values of short-term assets and liabilities and the cash reserved for maintenance of these assets represents a reasonable estimate of their fair value.

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 are subject to 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.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**MANAGEMENT'S REPORT**

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

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

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

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

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

Francine Grégoire
Director General

Jean-François Fusey, CA
Director of Administrative Services

Québec, November 30, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Grand Théâtre de Québec as at August 31, 2006 and the statements of operations, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at August 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 30, 2006

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
(R.S.Q., c. S-14.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Rental of premises	\$6 654 972	\$7 281 388
Royalties (Note 3)	3 463 565	3 245 327
Ancillary operations (Note 4)	5 912 374	6 599 435
Rental free of charge (Note 5)	614 432	640 703
Other (Note 6)	995 643	930 048
	<u>17 640 986</u>	<u>18 696 901</u>
EXPENSES		
Hosting of events (Note 7)	4 948 918	5 061 997
Operating and administrative expenses (Note 8)	16 974 086	16 785 200
Municipal taxes	7 333 594	7 629 173
Loss on rental free of charge (Note 5)	614 432	640 703
Net financial expenses (Note 9)	14 984 895	15 434 688
	<u>44 855 925</u>	<u>45 551 761</u>
EXCESS REVENUE OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(27 214 939)	(26 854 860)
Gouvernement du Québec subsidy (Note 10)	<u>30 834 572</u>	<u>32 244 899</u>
EXCESS REVENUE OVER EXPENSES BEFORE THE FOLLOWING ITEMS:	3 619 633	5 390 039
Gain (Loss) on sale of capital assets	764	(18 147)
Gouvernement du Québec subsidy for capital assets and deferred expenses (Note 10)	9 996 988	10 166 347
Amortization of capital assets	(11 044 528)	(11 045 855)
Amortization of deferred contributions	658 853	690 019
Amortization of deferred long-term debt issuing and management fees	(229 249)	(229 249)
Revenue related to an account receivable on the sale of an asset	<u>233 803</u>	<u>233 728</u>
EXCESS REVENUE OVER EXPENSES	<u>\$3 236 264</u>	<u>\$5 186 882</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALCUMULATED SURPLUS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	\$18 200 650	\$13 013 768
Cumulated excess revenues over expenses	<u>3 236 264</u>	<u>5 186 882</u>
BALANCE, END OF YEAR	<u><u>\$21 436 914</u></u>	<u><u>\$18 200 650</u></u>
Cumulated surplus invested in capital assets	\$7 059 338	\$7 332 890
Unappropriated cumulated surplus	<u>14 377 576</u>	<u>10 867 760</u>
	<u><u>\$21 436 914</u></u>	<u><u>\$18 200 650</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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$746 772	\$1 458 318
Short-term investments (Note 11)	10 580 440	1 499 535
Accounts receivable	2 473 665	2 068 478
Prepaid expenses	1 436 588	2 170 389
Gouvernement du Québec subsidy to be recovered (Note 13)	12 180 350	11 665 069
Receivable on sale of asset, rate of 4%	5 882 848	5 885 831
	<u>33 300 663</u>	<u>24 747 620</u>
Capital assets (Note 12)	292 421 388	302 117 216
Deferred expenses, at amortized cost	1 831 506	1 959 255
Gouvernement du Québec subsidy to be recovered (Note 13)	<u>25 562 089</u>	<u>23 805 210</u>
	<u><u>\$353 115 646</u></u>	<u><u>\$352 629 301</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$11 898 274	\$12 399 084
Customer deposits	2 177 798	2 274 476
Instalments on long-term debt (Note 16)	36 428 815	7 629 563
	<u>50 504 887</u>	<u>22 303 123</u>
Deferred revenues		6 715
Deferred contributions (Note 15)	10 528 783	11 187 636
Long-term debt (Note 16)	<u>270 645 062</u>	<u>300 931 177</u>
	331 678 732	334 428 651
CUMULATED SURPLUS	<u>21 436 914</u>	<u>18 200 650</u>
	<u><u>\$353 115 646</u></u>	<u><u>\$352 629 301</u></u>

COMMITMENTS (Note 20)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Suzanne Landry
Claude Liboiron

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Receipts – clients	\$16 454 454	\$18 709 068
Receipts – Gouvernement du Québec subsidy	38 559 400	30 349 550
Disbursements – suppliers and staff members	(28 529 558)	(29 607 551)
Interest earned	249 067	188 583
Interest paid	(15 329 226)	(15 716 021)
Cash flows related to operating activities	<u>11 404 137</u>	<u>3 923 629</u>
INVESTMENT ACTIVITIES ¹		
Acquisition of capital assets	(1 506 354)	(7 814 851)
Revenue from the sale of capital assets	<u>1 139</u>	<u>42 700</u>
Cash flows related to investment activities	<u>(1 505 215)</u>	<u>(7 772 151)</u>
FINANCING ACTIVITIES		
Long-term debt repayment	(7 629 563)	(7 261 752)
Long-term debt	<u>6 100 000</u>	
Cash flows related to financing activities	<u>(1 529 563)</u>	<u>(7 261 752)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8 369 359	(11 110 274)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2 957 853</u>	<u>14 068 127</u>
CASH AND CASH EQUIVALENTS, END OF YEAR ²	<u><u>\$11 327 212</u></u>	<u><u>\$2 957 853</u></u>

1 At March 31, 2007, “Accounts payable and accrued liabilities” included balances payable capital asset acquisitions totalling \$4 306 117 (2006: \$4 463 397).

2 Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2007</u>	<u>2006</u>
Cash on hand	\$746 772	\$1 458 318
Short-term investments	<u>10 580 440</u>	<u>1 499 535</u>
Cash and cash equivalents	<u><u>\$11 327 212</u></u>	<u><u>\$2 957 853</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2007

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) to:

- manage and operate the Palais des congrès de Montréal;
- prepare development or operational plans for the Palais des congrès;
- carry on, promote and administer such commercial and other activities as may foster the development of the Palais des congrès.

Under section 3 of the Act establishing it, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

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

Short-term investments

Short-term investments are reported at cost or net realization value, whichever is less.

Gouvernement du Québec subsidy recoverable

The Gouvernement du Québec committed to paying the Société the amounts it needs to cover its obligations on borrowings from the Financing Fund for capital asset acquisitions and borrowing issuing and management, after having ensured that the Société is unable to do so.

The Gouvernement du Québec subsidy recoverable corresponds to the difference between the total interest charges on borrowings for the acquisition of fixed assets and the cumulated amortization on these capital assets and on the deferred expenses financed by these borrowings and total Gouvernement du Québec subsidies received to enable the payment of these borrowings.

Capital assets

Capital assets are recorded at cost and amortized over their estimated useful life in accordance with the straight-line method as follows:

Building	40 years
Development	10 years
Furniture and equipment	10 years
Data processing equipment	5 years
Computer software	5 years
Leasehold improvements	Remaining term of lease

The Commission regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimating future cash flows and determining fair value requires exercising professional judgement and may vary over time.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)**Deferred expenses**

Issuing and management expenses on borrowings from the Gouvernement du Québec's Financing Fund are deferred and amortized in accordance with 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 in accordance with the straight-line method over the duration of the lease.

Deferred revenue

Lease inducements paid by the lessor to the Société under a long-term lease for office space are posted to deferred revenue and amortized in accordance with the straight-line method. The amortization is applied against the rent.

Deferred contributions

Contributions received for the acquisition of amortizable capital assets and those received in the form of amortizable capital assets are reported and transferred to results using the same method and service life estimates as the capital assets they pertain to.

Conversion into foreign currency

Monetary assets and liabilities in foreign currency are converted at the exchange rate in effect the date the financial statements were drawn up. Revenues and expenses are converted at the exchange rate in effect the date of the transaction. Exchange gains or losses are included in the fiscal year's results.

Revenue reporting

Revenue from space rental and the delivery of auxiliary services are reported as the services are rendered. Any difference between the amount received and the amount reported as revenue is indicated in the balance sheet under client or debtor deposits. Royalties are reported as they are earned in keeping with contractual conditions.

Subsidy reporting

The Société uses the deferred method to report subsidies. Subsidies allocated are reported as revenue for the fiscal year in which the related charges were incurred. Operating subsidies are reported as revenue for the fiscal year in which they were granted. The subsidy for capital assets and deferred expenses represents the government contribution to repayment of the long-term debt for financing amortizable capital assets and the related deferred expenses, which corresponds to the amortization of these capital assets and the issuing and management fees for the deferred long-term debt.

Pension plans

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

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that can easily be converted in the short term into a known amount whose value is unlikely to change significantly and whose initial maturity date when acquired is 3 months or less under cash and cash equivalents.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

3. ROYALTIES

	2007	2006
Ticket sales	\$445 038	\$463 651
Food services	2 281 837	1 782 028
Audiovisual services	633 367	870 537
Other	103 323	129 111
	<u>\$3 463 565</u>	<u>\$3 245 327</u>

4. ANCILLARY OPERATIONS

	2007	2006
Parking	\$1 008 760	\$877 582
Furnishings	1 380 397	1 487 328
Cleaning services	426 592	534 353
Audiovisual services	491 494	556 628
Telecommunications	730 184	822 295
Cloakroom attendants	222 770	241 838
Plumbing and electricity	1 437 940	1 678 039
Security	140 330	173 532
Other	73 907	227 840
	<u>\$5 912 374</u>	<u>\$6 599 435</u>

5. RENTAL FREE OF CHARGE

The Société rents spaces free of charge to two entities in exchange for the partial expropriation of certain assets that they own, in order to do expansion work on Palais des congrès. These transactions are recorded at their fair value.

6. OTHER REVENUE

	2007	2006
Office rental	\$690 943	\$625 348
Administrative office subletting	304 700	304 700
	<u>\$995 643</u>	<u>\$930 048</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**7. HOSTING OF EVENTS – EXPENSES**

	2007	2006
Salaries – event staff:		
Customer service	\$594 018	\$626 803
Parking	99 937	105 081
Reception and cloakroom	736 522	747 701
Audiovisual technicians	453 346	418 076
Telecommunications	114 108	135 287
Layout	1 389 552	1 337 999
Maintenance	564 385	374 809
Audiovisual services	80 768	226 552
Telecommunications	146 451	121 354
Plumbing and electricity	368 817	386 982
Security	118 592	178 483
Other expenses	282 422	402 870
	<u>\$4 948 918</u>	<u>\$5 061 997</u>

8. OPERATING AND ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and fringe benefits	\$7 198 132	\$6 961 351
Insurance and permits	281 141	291 187
Electricity and heating	1 787 694	1 884 779
Caretaking	762 737	785 899
Cleaning services	737 592	897 584
Specialized maintenance services	894 080	826 715
Maintenance and repairs	2 468 986	2 127 271
Amortization of deferred initial rental costs	74 252	59 340
Rent	609 274	620 136
Promotion and communications	1 145 301	1 181 986
Professional and administrative services	842 073	1 025 438
Doubtful and uncollectible accounts	99 522	39 666
Job training	73 302	83 848
	<u>\$16 974 086</u>	<u>\$16 785 200</u>

9. NET FINANCIAL EXPENSES

	2007	2006
Interest on long-term debt	\$15 232 953	\$15 603 281
Other interest and bank charges	1 009	19 990
	<u>15 233 962</u>	<u>15 623 271</u>
Interest on bank balances and term deposit	<u>(249 067)</u>	<u>(188 583)</u>
	<u>\$14 984 895</u>	<u>\$15 434 688</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

10. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2007	2006
Operating subsidy:		
Subsidy cashed in the fiscal year	\$38 559 400	\$39 599 400
Encashment – Subsidy recoverable from the Gouvernement du Québec for the previous fiscal year	<u>(11 665 069)</u>	<u>(11 390 006)</u>
	26 894 331	28 209 394
Contribution to be recovered for the payment of interest on the debt contracted to finance capital assets	<u>3 940 241</u>	<u>4 035 505</u>
Total operating subsidy	30 834 572	32 244 899
Subsidy for capital assets and deferred expenses	<u>9 996 988</u>	<u>10 166 347</u>
	<u><u>\$40 831 560</u></u>	<u><u>\$42 411 246</u></u>

11. SHORT-TERM INVESTMENTS

	2007	2006
Commercial papers, at 4.30%, maturing between April 2 and May 15, 2007	<u>\$10 580 440</u>	<u>\$1 499 535</u>

12. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Capital assets			
Land	\$24 718 521		\$24 718 521
Building	349 137 299	\$91 790 405	257 346 894
Furniture and equipment	21 356 262	12 423 128	8 933 134
Layout	1 160 101	135 149	1 024 952
Leasehold improvements	481 717	481 717	
Data processing equipment	<u>4 986 006</u>	<u>4 643 287</u>	<u>342 719</u>
	401 839 906	109 473 686	292 366 220
			<u>302 065 163</u>
Intangible assets			
Computer software	<u>2 009 230</u>	<u>1 954 062</u>	<u>55 168</u>
	<u><u>\$403 849 136</u></u>	<u><u>\$111 427 748</u></u>	<u><u>\$292 421 388</u></u>
			<u><u>\$302 117 216</u></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. At March 31, 2007, holdbacks payable to the Société immobilière du Québec to reimburse construction costs were \$4 306 117 and were included in "Accounts payable and accrued liabilities". The total estimated project cost was \$257 800 000. On June 8, 2005, the Gouvernement du Québec authorized a budget increase to \$280 700 000, corresponding to the amount required to settle claims at March 31, 2007 regarding the Palais des congrès expansion. Cumulated project costs at March 31, 2007 totalled \$272 494 756 and break down as:

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. CAPITAL ASSETS (cont'd)

	2007
Land	\$21 733 470
Building	244 460 517
Furniture and equipment	6 300 769
	<u>\$272 494 756</u>

13. GOUVERNEMENT DU QUÉBEC SUBSIDY RECOVERABLE

	2007	2006
The subsidy recoverable breaks down as:		
Balance, beginning of year	\$35 470 279	\$32 658 431
Amortization of capital assets and long-term issuing and management fees	9 996 988	10 166 347
Accrued interest on borrowings	<u>15 232 953</u>	<u>15 603 281</u>
	60 700 220	58 428 059
Government subsidies received	<u>(22 957 781)</u>	<u>(22 957 780)</u>
Balance, end of year	<u>\$37 742 439</u>	<u>\$35 470 279</u>

This balance pertains to the following items of the balance sheet:

Financing Fund borrowing (Note 16)	\$307 073 877	\$308 560 740
Unamortized balance of capital assets and issuing and management fees financed over the long term	<u>(273 271 679)</u>	<u>(277 125 966)</u>
	33 802 198	31 434 774
Accrued interest on borrowings	<u>3 940 241</u>	<u>4 035 505</u>
	<u>\$37 742 439</u>	<u>\$35 470 279</u>
Short-term portion	\$12 180 350	\$11 665 069
Long-term portion	<u>25 562 089</u>	<u>23 805 210</u>
	<u>\$37 742 439</u>	<u>\$35 470 279</u>

14. SHORT-TERM BORROWINGS

The Société was authorized by the Gouvernement du Québec to contract short-term borrowings of up to \$10 000 000 until September 30, 2008 from financial institutions or the Minister of Finance, as manager of the Financing Fund, to contract these borrowings at variable or fixed rates, to make these financial commitments, to conclude the agreements needed for their realization and to issue any debt instruments.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. SHORT-TERM BORROWINGS (cont'd)**

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.

15. DEFERRED CONTRIBUTIONS

	2007	2006
Deferred Gouvernement du Québec contribution:		
Balance, beginning of year	\$351 698	\$372 386
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets ¹	20 688	20 688
	331 010	351 698
Deferred lender's contribution:		
Balance, beginning of year	369 850	422 773
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets ¹	21 756	52 923
	348 094	369 850
Deferred dealer's contribution:		
Balance, beginning of year	169 667	179 647
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets ¹	9 981	9 980
	159 686	169 667
Deferred Hydro-Québec contribution:		
Balance, beginning of year	96 421	102 849
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets ¹	6 428	6 428
	89 993	96 421
Deferred Government of Canada contribution:		
Balance, beginning of year	10 200 000	10 800 000
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets ¹	600 000	600 000
	9 600 000	10 200 000
	<u>\$10 528 783</u>	<u>\$11 187 636</u>

1 Amortization of the fiscal year's deferred contributions totalled \$658 853 (March 31, 2006: \$690 019).

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

16. LONG-TERM DEBT**From the Gouvernement du Québec's Financing Fund**

	2007	2006
Notes payable		
Fixed rate of 5.719% annually (effective rate of 5.795%), repayable in semi-annual instalments of \$1 264 225, until March 31, 2007 and by an instalment of \$29 898 362 maturing October 1, 2007	\$29 067 186	\$29 897 501
Fixed rate of 5.234% annually (effective rate of 5.299%), repayable in semi-annual instalments of \$1 172 832, until March 30, 2015 and by an instalment of \$23 094 301 maturing September 30, 2015	30 058 787	30 801 879
Fixed rate of 5.159% annually (effective rate of 5.223%), repayable in semi-annual instalments of \$4 683 303, until April 1, 2013 and by an instalment of \$100 465 429 maturing October 1, 2013	121 512 266	124 494 958
Fixed rate of 4.6035% annually (effective rate of 4.658%), repayable in semi-annual instalments of \$4 358 531, until February 6, 2011 and by an instalment of \$108 950 781 maturing August 6, 2011	120 292 938	123 366 402
Fixed rate of 4.343% annually (effective rate of 4.387%), repayable in semi-annual instalments of \$201 051, until June 1, 2016 and by an instalment of \$4 542 197 maturing December 1, 2016	6 142 700	
	<u>307 073 877</u>	<u>308 560 740</u>
Minus: Instalments due within one year	<u>36 428 815</u>	<u>7 629 563</u>
	<u>\$270 645 062</u>	<u>\$300 931 177</u>

Long-term debt repayments include principal and interest.

Principal payments on the long-term debt for the next five fiscal years are:

2008	\$36 428 815
2009	7 546 604
2010	7 921 736
2011	8 322 427
2012	111 483 703

To ensure repayment of the principal and interest on borrowings contracted under the borrowing plan set up by the Société, the Gouvernement du Québec is authorized, after having ensured that the Société is unable to meet its obligations under one of these borrowings, to pay the amounts required to make up for this inability. Financing costs are included in the debt principal.

17. FINANCIAL INSTRUMENTS**Fair value**

The following methods and assumptions were used to estimate the fair value of the financial instruments in the balance sheet.

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**17. FINANCIAL INSTRUMENTS (cont'd)**

The fair value of the Gouvernement du Québec subsidy recoverable of \$37 742 439 cannot be assessed given the absence of a market for this type of financial instrument.

The fair value of the elements of the long-term debt is determined using the actualized value of future cash flows under current financing agreements, at interest rates offered on the market to the Société for borrowings with similar conditions and terms. The fair value is:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$307 073 877</u>	<u>\$319 975 928</u>	<u>\$308 560 740</u>	<u>\$319 727 884</u>

Interest-rate risk

Because the rates for Société's financial interest-bearing assets and liabilities are fixed, 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 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.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

19. FUTURE FRINGE BENEFITS**Pension plans**

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

The Société's contributions charged to the year-end statement totalled \$354 850 (2006: \$312 125). Its liability towards these Government plans is restricted to its employer contributions.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

20. 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:

	<u>Rent</u>	<u>Other</u>
2008	\$69 250	\$3 853 941
2009		1 878 005
2010		173 832
2011		173 832
2012		173 832
	<u>\$69 250</u>	<u>\$6 253 442</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**MANAGEMENT'S REPORT**

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

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

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

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

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

Paul Saint-Jacques
President and Chief Executive Officer

André Saucier
Director, Financial and Administration

Montréal, June 1, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Palais des congrès de Montréal as at March 31, 2007 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 1, 2007

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
(R.S.Q., c. S-16.001)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
REVENUES (Note 3)	<u>\$5 578 912</u>	<u>\$6 319 861</u>
Expenses		
Operating expenses by category (Note 4)		
Salaries and fringe benefits	1 035 194	1 056 059
Materials and supplies	807 994	740 439
Maintenance and repairs	741 384	663 495
Professional, administrative and other services	192 181	237 063
Municipal and school taxes	181 310	182 942
Caretaking	174 160	174 723
Travelling and communications	67 593	60 264
Advertising and promotion	55 843	40 075
Other charges	9 000	10 000
	<u>3 264 659</u>	<u>3 165 060</u>
Amortization of capital assets	<u>2 115 863</u>	<u>2 055 736</u>
	5 380 522	5 220 796
Other charges		
Financial expenses (Note 5)	956 647	961 266
Partial financing of Bécancour's water supply and sewer systems (Note 12)	<u>47 716</u>	<u>47 421</u>
	<u>6 384 885</u>	<u>6 229 483</u>
(NET LOSS) NET GAIN	(805 973)	90 378
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>13 777 014</u>	<u>13 686 636</u>
CUMULATED SUPPLUS, END OF YEAR	<u><u>\$12 971 041</u></u>	<u><u>\$13 777 014</u></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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$656 753	\$984 498
Term deposits, (Note 6)	1 300 000	
Accounts receivable (Note 7)	850 008	1 862 951
Spare parts inventory	199 053	201 810
Prepaid expenses	<u>108 110</u>	<u>105 609</u>
	3 113 924	3 154 868
Deferred issuing and management fees – amortized cost	65 577	80 233
Land inventory	5 473 066	5 478 211
Capital assets (Note 8)	<u>25 528 264</u>	<u>26 104 368</u>
	<u>\$34 180 831</u>	<u>\$34 817 680</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$339 650	\$385 212
Accrued interest on long-term debt	424 324	425 306
Holdback on contracts	12 773	60 248
Deferred product	<u>163 053</u>	<u>166 636</u>
	939 800	1 037 402
Provision for sick leave (Note 15)	99 386	131 708
Deferred government assistance - amortized cost (Note 9)	2 170 604	1 871 556
Long-term debt (Note 11)	<u>18 000 000</u>	<u>18 000 000</u>
	21 209 790	21 040 666
CUMULATED SURPLUS	<u>12 971 041</u>	<u>13 777 014</u>
	<u>\$34 180 831</u>	<u>\$34 817 680</u>
COMMITMENTS (Note 12)		

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
STATEMENT OF CASH FLOWS

for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
(Net loss) net gain	\$(805 973)	\$90 378
Adjustments for:		
Amortization of government assistance	(97 210)	(65 440)
Amortization of capital assets	2 115 863	2 055 736
Amortization of issuing and management fees	14 656	14 867
(Gain) loss on sale of land	2 585	(32 428)
(Gain) loss on sale of capital assets	<u>(12 000)</u>	<u>24 573</u>
	1 217 921	2 087 686
Acquisition of property	(88)	(48 307)
Proceeds from sale of property	2 648	40 089
Changes in assets and liabilities related to operations (Note 13)	<u>883 275</u>	<u>(950 592)</u>
Cash flows related to operating activities	<u>2 103 756</u>	<u>1 128 876</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(1 539 759)	(2 014 029)
Revenue from sale of capital assets	<u>12 000</u>	<u>86</u>
Cash flows related to investment activities	<u>(1 527 759)</u>	<u>(2 013 943)</u>
FINANCING ACTIVITIES		
Government assistance	396 258	703 999
Issuing and management fees	<u></u>	<u>(44 000)</u>
Cash flows related to financing activities	<u>396 258</u>	<u>659 999</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	972 255	(225 068)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>984 498</u>	<u>1 209 566</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	<u><u>\$1 956 753</u></u>	<u><u>\$984 498</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2007

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du parc industriel et portuaire de Bécancour was established under a special act (R.S.Q., c. S-16.001) to foster the economic development of Québec by developing and operating, 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

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

Revenue reporting

Revenues from port and industrial water services are posted when received. The Société reports its basic rent using the straight-line method over the duration of leasing contracts. Revenues from easements are reported when easements are granted.

Cash and cash equivalents

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

Deferred issuing and management fees

Long-term debt issuing fees are posted at cost and amortized in accordance with the straight-line method over the duration of the corresponding debt.

Spare parts inventory

The spare parts inventory is assessed at cost or replacement value, whichever is less. The cost is established using the first in-first out method.

Property inventory

The properties in inventory are posted at cost or net realization value, whichever is less. The municipal and school taxes and interest related to the purchase of these properties are posted to operations.

Capital assets

Capital assets are posted at cost and amortized on a straight-line basis at the following rates:

Buildings, storage areas and parking space	2 1/2% to 5%
Harbour facilities	2 1/2% to 20%
Vehicles	20%
Equipment	6 2/3% to 10%
Water supply and sewer systems	3 1/3% to 5%
Industrial water plant and distribution system	2 1/2% and 5%
Roads and streets	4% and 5%
Rail network	2 1/2%
Office furniture and equipment	10% and 20%

The Société regularly examines the book value of its fixed assets, comparing it to the non-actualized future cash flows expected to be generated by them. Any surplus in book value over the fair value is posted to results for the period in which the depreciation was determined.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)
Deferred government assistance

Subsidies for the acquisition of capital assets are posted to “Deferred government assistance” and transferred to results using the same method and amortization rates as the capital assets subsidized. Subsidies for operating expenses are posted to “Other revenue”.

Pension plan

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

3. REVENUES

	2007	2006
Operating income:		
Port services	\$2 606 528	\$2 958 101
Industrial water service	1 348 359	1 193 946
City of Bécancour’s reimbursement of certain maintenance costs	850 000	850 000
Building rental	516 530	608 020
Amortization of government assistance	97 210	65 440
Interest on cash and term deposits	53 031	36 193
Other revenues	39 868	56 106
Gain (loss) on sale of capital assets	12 000	(24 573)
	<u>5 523 526</u>	<u>5 743 233</u>
Revenues related to property inventory		
Revenues from sale of properties	2 648	40 089
Cost of land sold	5 233	7 661
	(2 585)	32 428
Public services publics related to sale of properties	57 971	51 790
Land-use easements		492 410
	<u>55 386</u>	<u>576 628</u>
	<u>\$5 578 912</u>	<u>\$6 319 861</u>

**4. OPERATING COSTS BY ACTIVITY SECTOR,
BEFORE AMORTIZATION OF CAPITAL ASSETS**

	2007	2006
Overall administration	\$1 162 568	\$1 190 692
Industrial water plant and distribution system	908 892	811 525
Buildings	331 236	338 166
Port facilities	299 391	309 807
Transport networks	276 908	269 417
Drinking water supply and sewage systems	169 784	75 776
Vehicles and equipment	115 880	169 677
	<u>\$3 264 659</u>	<u>\$3 165 060</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOURNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**5. FINANCIAL FEES**

	2007	2006
Interest on long-term debt	\$941 738	\$946 293
Amortization of issuing and management fees	14 656	14 867
Interest on bank borrowing	253	106
	<u>\$956 647</u>	<u>\$961 266</u>

6. TERM DEPOSIT

Term deposit at 4%, maturing on September 30, 2007.

7. ACCOUNTS RECEIVABLE

	2007	2006
Clients	\$568 601	\$1 022 116
Government assistance	173 000	740 887
Other	108 407	99 948
	<u>\$850 008</u>	<u>\$1 862 951</u>

8. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Land	\$28 069		\$28 069
Buildings, storage areas and parking space	3 637 689	\$2 375 315	1 262 374
Port facilities	39 834 718	23 756 264	16 078 454
Vehicles and equipment	758 917	528 833	230 084
Water supply and sewer systems	7 340 603	4 876 787	2 463 816
Industrial water plant and distribution system	12 024 020	9 252 888	2 771 132
Transportation network:			
Roads and streets	10 010 088	8 360 428	1 649 660
Rail network	1 472 564	466 205	1 006 359
Office furniture and equipment	280 060	241 744	38 316
	<u>\$75 386 728</u>	<u>\$49 858 464</u>	<u>\$25 528 264</u>

9. DEFERRED GOVERNMENT ASSISTANCE – AMORTIZED COST

	2007	2006
Gouvernement du Québec	\$858 628	\$889 848
Gouvernement du Canada	466 578	325 628
Ville de Bécancour	845 398	656 080
	<u>\$2 170 604</u>	<u>\$1 871 556</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
10. BANK BORROWING

The Société has a bank credit line of \$1 500 000 guaranteed by the Gouvernement du Québec and renewable annually on October 31. Amounts withdrawn bear interest at the prime rate. At March 31, 2007, the prime rate was 6% (2006: 5.5%) and the balance owing on this borrowing was zero.

11. LONG-TERM DEBT

	2007	2006
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 3.715%, which capital is repayable in April 2008	\$4 000 000	\$4 000 000
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 6.186%, which capital is repayable in October 2012	10 000 000	10 000 000
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 4.85%, which capital is repayable in December 2015	4 000 000	4 000 000
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

12. COMMITMENTS
Partial financing of Bécancour's water supply and sewer systems

Under an agreement with the town of Bécancour, ratified by the Gouvernement du Québec on April 11, 1973, the Société is authorized to participate in the financing, until 2011, of the water supply and sewer systems servicing the industrial park and part of the town.

The Société is committed to paying the annual debt service on one borrowing by the town of Bécancour. As at March 31, 2007, the balance of this commitment was \$213 300 (2006: \$249 500). The participation (principal and interest) during the fiscal year was \$47 716 (2006: \$47 421).

13. CASH FLOWS

The additional cash flow information is:

	2007	2006
Changes in assets and liabilities related to operations		
Accounts receivable	\$1 012 943	\$(1 033 523)
Spare parts inventory	2 757	2 363
Prepaid expenses	(2 501)	(3 166)
Accounts payable and accrued liabilities	(45 562)	72 732
Holdback on contracts	(47 475)	44 633
Accrued interest on the long-term debt	(982)	(42 026)
Deferred revenues	(3 583)	(39 045)
Provision for sick leave	(32 322)	47 440
	<u>\$883 275</u>	<u>\$(950 592)</u>
Cash and cash equivalents		
Cash on hand	\$656 753	\$984 498
Term deposits	1 300 000	
	<u>\$1 956 753</u>	<u>\$984 498</u>
Additional information		
Interest paid on long-term debt	<u>\$942 720</u>	<u>\$988 319</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

13. CASH FLOWS (cont'd)

At March 31, 2007, the item "Holdback on contracts" included \$12 773 (2006: \$60 248) in acquisitions.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not 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. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP). This is an inter-enterprise defined-benefit plan that includes guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$46 553 (2006: \$41 433). Its liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$131 708	\$84 268
Annual expenses	18 576	63 512
Benefits paid	(50 898)	(16 072)
Balance, end of year	<u>\$99 386</u>	<u>\$131 708</u>

16. FINANCIAL INSTRUMENTS**Fair value**

The fair value of assets and short-term liabilities equals their book value, given that they mature in the short term.

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.

	2007	2006
Long-term debt:		
Book value	\$18 000 000	\$18 000 000
Fair value	19 404 711	19 302 108

Interest rate risk

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

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

16. FINANCIAL INSTRUMENTS (cont'd)**Interest rate risk (cont'd)**

The long-term debt bears interest at a fixed rate. Since the Société intends to refinance all of its borrowings at term, it cannot estimate the risks to which the long-term debt is exposed.

Credit risk

The Société is not exposed to any significant risk with respect to a client in particular or a specific consideration. It assesses its clients' financial position on an ongoing basis and examines all new clients' credit history. The Société establishes a provision for doubtful debts based on the credit risk certain clients' represent, historical trends and other information.

17. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

The financial statements of the Société du parc industriel et portuaire de Bécancour were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

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

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report 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

M^{re} Guy LeBlanc
President and Chief Executive Officer

Bécancour, May 18, 2007

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du parc industriel et portuaire de Bécancour as at March 31, 2007 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Auditor General of Québec
France Alain, CA
Director, Financial Certification Consulting Services

Québec, May 18, 2007

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC
(R.S.Q., c. S-17)

CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 2006, with comparative figures for 2005
(in thousands of dollars)

	2006	2005
REVENUE (Note 4)	<u>1 452 737</u>	<u>1 358 015</u>
OPERATING EXPENSES		
Cost of goods sold	1 224 832	1 157 722
Selling, general and administrative expenses	117 448	118 495
Amortization (Note 1 b))	81 018	85 832
Goodwill impairment	<u>919</u>	<u></u>
	<u>1 424 217</u>	<u>1 362 049</u>
OPERATING EARNING (LOSS) FROM CONTINUING OPERATIONS	28 520	(4 034)
Share of earnings (loss) from companies subject to significant influence	(4 736)	2 450
Dividend and interest income on long-term investments	<u>2 266</u>	<u>7 720</u>
Operating earning from continuing operations before the undernoted items	26 050	6 136
Gain on changes in the fair value of investment companies	4 857	15 830
Provision for losses on other long-term investments	(21 094)	(32 198)
Write-down of property, plant and equipment and other assets	(627)	
Net gain on disposal of long-term investment (Note 5)	<u>93 447</u>	<u>122 119</u>
OPERATING EARNINGS FROM CONTINUING OPERATIONS	102 633	111 887
Financial (expenses) income (Note 6)	(14 378)	(13 165)
Other income	3 163	748
Future income tax recovery (expense) (Note 7)	<u>(24 698)</u>	<u>9 561</u>
EARNINGS FROM CONTINUING OPERATIONS (Note 4)	66 720	109 031
Earnings (loss) from discontinued operations (Note 8)	<u>8 767</u>	<u>(38 930)</u>
NET EARNINGS (Note 4)	<u><u>75 487</u></u>	<u><u>70 101</u></u>

See accompanying notes to the consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF DEFICIT
year ended December 31, 2006, with comparative figures for 2005
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	(349 095)	(419 196)
NET EARNINGS	<u>75 487</u>	<u>70 101</u>
BALANCE, END OF YEAR	<u><u>(273 608)</u></u>	<u><u>(349 095)</u></u>

See accompanying notes to the consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at December 31, 2006, with comparative figures for 2005
(in thousands of dollars)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	232 140	176 000
Temporary investments	10 062	7 399
Accounts receivable	193 403	222 728
Inventories	221 403	172 819
Prepaid expenses	7 696	8 486
Current assets held for sale (Note 8)	1 357	70 591
Current portion of long-term investments (Note 9)	9 650	73 466
Current portion of other assets (Note 11)	1 518	1 466
	<u>677 229</u>	<u>732 955</u>
Long-term assets held for sale (Note 8)	1 598	16 471
Long-term investments (Note 9)	590 763	497 126
Property, plant and equipment (Note 10)	1 152 610	1 148 133
Goodwill	352	919
Future income taxes (Note 7)		24 698
Other assets (Note 11)	<u>106 137</u>	<u>102 069</u>
TOTAL ASSETS	<u>2 528 689</u>	<u>2 522 371</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Bank loans	8 566	8 548
Accounts payable and accrued liabilities	163 478	144 661
Current liabilities of businesses held for sale (Note 8)	1 834	43 391
Current portion of long-term debt (Note 12)	106 183	26 811
Current portion of share subscriptions	3 548	3 854
Current portion of other long-term liabilities (Note 13)	2 117	1 791
	<u>285 726</u>	<u>229 056</u>
Long-term liabilities of businesses held for sale (Note 8)	1 121	13 754
Long-term debt (Note 12)	303 678	416 233
Share subscriptions	3 357	7 812
Other long-term liabilities (Note 13)	35 075	31 271
Shareholder's equity:		
Share capital (Note 14)	2 173 340	2 173 340
Deficit	<u>(273 608)</u>	<u>(349 095)</u>
	<u>1 899 732</u>	<u>1 824 245</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>2 528 689</u>	<u>2 522 371</u>

COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 20)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,
Richard J. Renaud, Director
Stephen Rosenhek, Director

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2006, with comparative figures for 2005
(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
Earnings from continuing operations	66 720	109 031
Adjustments for:		
Amortization	81 018	85 832
Share of (earnings) losses from companies subject to significant influence	4 736	(2 450)
Gain on the changes in the fair value of investment companies	(4 857)	(15 830)
Provision for losses on other long-term investments	21 094	32 198
Write-down of property, plant and equipment and other assets	627	
Goodwill impairment	919	
Net gain on disposal of long-term investments	(93 447)	(122 119)
Net foreign exchange gain on long-term debt and loans receivable	(249)	(5 725)
Dividends received from companies subject to significant influence	1 094	4 728
Future income taxes	24 698	(9 561)
Employee future benefits	3 737	2 480
Capitalized interest	6 453	3 559
Other items, net	41	831
	112 584	82 974
Net change in non-cash operating working capital items (Note 15)	6 525	(76 528)
Cash flows from continuing operating activities	119 109	6 446
Cash flows from (used for) discontinued operating activities	(3 376)	7 601
Cash flows from operating activities	115 733	14 047
INVESTING ACTIVITIES		
Temporary investments	(2 663)	(6 376)
Acquisitions of long-term investments (Notes 4 and 16)	(196 302)	(8 177)
Disposal of businesses and of long-term investments (Note 17)	231 776	189 555
Additions to property, plant and equipment (Notes 4 and 15b))	(33 796)	(84 832)
Other investing activities (Note 15b))	(12 649)	(13 005)
Cash flows from (used for) continuing investing activities	(13 634)	77 165
Cash flows used for discontinued investing activities	(1 885)	(3 082)
Cash flows from (used for) investing activities	(15 519)	74 083
FINANCING ACTIVITIES		
Increase in long-term debt	7 615	32 005
Repayment of long-term debt	(48 729)	(23 654)
Payment of share subscriptions	(4 740)	(10 851)
Other financing activities	981	(939)
Cash flows used for continuing financing activities	(44 873)	(3 439)
Cash flows used for discontinued financing activities	(788)	(9 221)
Cash flows used for financing activities	(45 661)	(12 660)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR (amounts carried forward)	54 553	75 470

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
year ended December 31, 2006, with comparative figures for 2005
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR (amounts brought forward)	54 553	75 470
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>177 587</u>	<u>102 117</u>
CASH AND CASH EQUIVALENTS, END OF YEAR FROM CONTINUING ACTIVITIES	232 140	176 000
CASH AND CASH EQUIVALENTS, END OF YEAR FROM DISCONTINUED ACTIVITIES	<u> </u>	<u>1 587</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>232 140</u>	<u>177 587</u>
 SUPPLEMENTAL CASH FLOW INFORMATION (Note 15)		
Interest paid	<u>23 334</u>	<u>23 275</u>

See accompanying notes to the consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

year ended December 31, 2006

(in thousands of dollars)

The Company was created in 1962 under the Act respecting the 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 economic development projects, particularly in the industrial sector, in cooperation with partners and in compliance with acceptable profitability requirements and the economic development policy of the Government of Québec. It has established a presence mainly in the following groups: Chemicals, Energy, Environment; Mines, Metals, Materials; Forest Products; Life Sciences, Information and Communication Technologies and Agri-Food.

1. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**a) Non-monetary transactions**

On January 1, 2006, the Company adopted CICA Handbook Section 3831, "Non-Monetary Transactions". This new standard requires that assets be measured at fair value when exchanged in a non-monetary transaction of commercial substance. Commercial substance exists when an entity's future cash flows are expected to change significantly due to the transaction. Transactions that lack commercial substance, which represent an exchange of shares, a non-monetary, non-reciprocal transfer to owners or for which the fair value of the transferred item cannot be reliably measured, will continue to be measured at the carrying amount. The adoption of this new standard did not have an impact on the Company's results.

b) Amortization of long-lived assets

During the year, certain joint ventures revised the expected useful lives of depreciable long-lived assets. The initial 15-year amortization period of "machinery and equipment" and "operating licenses" was extended by 10 years. This change in useful life estimate was recorded prospectively effective January 1, 2006 and resulted in a decrease in amortization expense of \$11 500 000 during 2006.

2. FUTURE ACCOUNTING POLICY CHANGE

The CICA issued the following accounting standards effective for fiscal years beginning on or after October 1, 2006: Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation"; Section 3865, "Hedging"; and Section 1530, "Comprehensive Income". These sections require certain financial instruments and hedge positions to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income.

Financial instruments designated as "held for trading" and "available for sale" as well as guarantees will be carried at their fair value, while financial instruments such as loans and those classified as "held to maturity" will be carried at amortized cost. All derivatives will be carried to the Consolidated Balance Sheet at their fair value, including derivatives designated as hedges. The effective portion of unrealized gains and losses on cash flow hedges and hedges of a net investment will be carried to an equity item called "Accumulated other comprehensive income". The ineffective portions of gains and losses on cash flow hedges will be recognized in earnings immediately. These standards will be adopted prospectively effective January 1, 2007, without a restatement of prior year figures. The Company is currently evaluating the impact that the adoption of these new sections will have on its Consolidated Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES**a) Principles of consolidation**

These Consolidated Financial Statements include the accounts of the Société générale de financement du Québec as well as 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 investments held by investment companies and other long-term investments, property, plant and equipment and goodwill. Actual results could differ from those estimates. Estimates are reviewed periodically and, as adjustments become necessary, they are charged to earnings of the period in which they are known.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2006

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Fair value of financial instruments

The Company measures the fair value of its financial instruments based on current interest rates, 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, approximate their fair value.

d) Revenue recognition

Revenue is recognized when the merchandise has been delivered to the customer, when the risks and rewards of ownership have been transferred to the customer, and collection is reasonably assured.

e) Cash and cash equivalents

Cash and cash equivalents include cash, bank balances, short-term liquid investments with maturities of three months or less and bank overdrafts.

f) 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.

g) Inventories

Inventories are valued at the lower of cost and market value. Cost is determined by using the average cost method, and market value is defined as replacement cost or net realizable value.

h) 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 in the earnings of companies 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. These investments are held by investment companies and are recorded at their fair value which is determined by the Company's management as follows:

- i) Listed shares are valued based on the bid price at the close of the market. When this value does not adequately represent the fair value, such investments are valued using the same valuation method as unlisted shares. Shares with quoted values 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 volatility of the security price.
- ii) Unlisted shares are valued in accordance with generally accepted valuation techniques.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2006

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**i) Property, plant and equipment**

Property, plant and equipment are recorded at cost, less related government grants, which are recorded when eligible expenditures are incurred. Cost consists of acquisition or construction costs, including interest expenses incurred during the construction of plants. Amortization is calculated using the straight-line method based on the estimated useful lives of the following assets:

<u>Asset</u>	<u>Period</u>
Building	10 to 40 years
Machinery and equipment	3 to 25 years
Other	3 to 15 years

The acquisition cost of timberlands and the silviculture costs are capitalized. Amortization is calculated using a depletion rate based on the total exploitable volume of timber on the timberlands.

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.

When an asset retirement legal obligation exists, the fair value of the liability for this obligation is recognized in the period in which the obligation is incurred, assuming a reasonable estimate can be made. The resulting costs are capitalized to property, plant and equipment. The company amortizes the asset retirement cost capitalized to property, plant and equipment and recognizes accretion expense in connection with the liability for the estimated remaining useful life of the asset.

j) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This recoverability is measured by comparing the carrying amount of the assets with the estimated value of future undiscounted cash flows directly related to the use of the assets. 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.

k) 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 cost to sell, and must not be amortized while 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 abandonment, before the end of its previously estimated useful life, is classified as an asset held for use until its disposal and the amortization estimates must be reviewed based on the asset's shorter useful life.

The operating results of a business component that has either been disposed by sale or abandonment or that has been classified as held for sale are reported as discontinued operations, if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the business as a result of the disposal transaction and if the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction.

l) Goodwill

Goodwill is the excess of the business acquisition cost over the net value attributed to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The impairment test is a comparison of the fair value of the reporting units of the Company with their carrying value. When the carrying value of a reporting unit exceeds its fair value, an impairment loss is recognized for an amount equal to the excess. The fair value of a reporting unit is calculated using valuations or discounted cash flow methods.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 year ended December 31, 2006
 (in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
l) Goodwill (cont'd)

Goodwill included in investments in companies subject to significant influence is also not amortized. However, regarding the impairment of these assets, an impairment loss is recognized to record an investment at its estimated realizable value.

m) Operating licenses

The cost of operating licences is capitalized and amortized over a 10-to-25 year period upon the commencement of operations.

n) Mining properties

Mining properties include the costs pertaining to the exploration and development of mineral sites. However, these accumulated costs do not necessarily represent the current or future value of the projects for which they were incurred and exclude the administrative costs associated with the exploration and development work, which are recorded as incurred in the statement of operations.

When a decision is made to commence operations, all costs pertaining to the mining properties are transferred to property, plant and equipment. However, when a project is discontinued, or it is estimated that the costs incurred cannot be recovered, all costs relating thereto are recorded in the statement of operations during the year. The costs incurred to maintain these discontinued mining properties are also recorded in the statement of operations as incurred. These costs are presented under "Amortization".

o) Pre-operating costs

Pre-operating costs include certain financial and other costs incurred during the start-up phase of certain plants. These costs are recorded as incurred in the statement of operations.

p) Electricity purchase agreement

The cost of the electricity purchase agreement is based on a risk-sharing formula according to the fluctuation in aluminium prices and is amortized on a straight-line basis over the term of the agreement of 15 years starting in 2002.

q) Foreign currency translation

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the exchange rates in effect at year-end. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of earnings for the year.

r) Employee future benefits

The cost of pension and other retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on management's best estimate of economic and demographic assumptions.

Past service costs arising from a plan amendment are charged to operations over the average remaining service period of active employees at the date of the plan amendment. The Company amortizes the portion of actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation or the fair value of plan assets over the average remaining service period of active employees covered by the plans.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**s) 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 to not use 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 that have been terminated or for which the hedging relationship ceases to be effective prior to maturity are reported 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 this derivative financial instrument are recorded in the Statement of Operations.

t) Income taxes

As a government-owned company, Société générale de financement du Québec and its wholly-owned subsidiaries are not subject to income taxes in Canada.

The joint ventures follow the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the future tax consequences of temporary differences between the carrying amount of assets and liabilities and their corresponding tax basis. Future income tax assets and liabilities are measured using the tax rates expected to apply in the period during which these differences are expected to reverse.

A valuation allowance is established to reduce the carrying amount of future income tax assets when it is more likely than not that they will not be realized.

4. SUMMARY OF SEGMENT INFORMATION

The Company operates in six investment groups in addition to the Corporation group. As at December 31, 2006, its investments were in the following groups: Chemicals, Energy, Environment; Mines, Metals, Materials; Forest Products; Life Sciences; Information and Communication Technologies; and Agri-Food. The Corporate group includes the following investments: Domtar, Rona and Dark Castle Holdings.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

4. SUMMARY OF SEGMENT INFORMATION (cont'd)

		Revenue	Net earnings (loss)	Segment assets	Additions to property, plant and equipment	Acquisitions of long-term investments
Chemicals, Energy, Environment	2006	780 340	(13 931)	766 663	10 543	
	2005	770 838	1 944	807 622	13 883	
Mines, Metals, Materials	2006	225 367	60 160	564 945	8 376	1 828
	2005	148 520	3 737	510 138	36 591	1 840
Forest Products	2006	299 697	(30 283)	524 984	12 373	149 154
	2005	300 805	(673)	401 668	32 419	
Life Sciences	2006		(5 157)	101 137		7 666
	2005		34 920	142 388		907
Information and Communication Technologies	2006		14 024	37 105		1 917
	2005		11 736	53 968		3 015
Agri-Food	2006	147 333	(3 505)	174 688	1 785	17 395
	2005	137 852	8 366	162 992	1 345	1 961
Corporate	2006		62 182	203 630		18 342
	2005		66 891	201 187		454
Segment totals	2006	1 452 737	83 490	2 373 152	33 077	196 302
	2005	1 358 015	126 921	2 279 963	84 238	8 177
Corporate activities	2006		(16 770)	152 582	719	
	2005		(17 890)	155 346	594	
Continuing operations	2006	1 452 737	66 720	2 525 734	33 796	196 302
	2005	1 358 015	109 031	2 435 309	84 832	8 177
Discontinued operations (Note 8)	2006		8 767	2 955		
	2005		(38 930)	87 062		
Consolidated total	2006	1 452 737	75 487	2 528 689	33 796	196 302
	2005	1 358 015	70 101	2 522 371	84 832	8 177

5. NET GAIN ON DISPOSAL OF LONG-TERM INVESTMENTS

During the year, the Company disposed of all the shares it held in Rona and some shares of Miranda Technologies. The Company also completed other disposals of investments during the year. These transactions resulted in a gain on disposals of \$93 447 000.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

6. FINANCIAL (EXPENSES) INCOME

	2006	2005
Interest on long-term debt	(25 389)	(22 672)
Net foreign exchange gain on long-term debt and loans receivable	249	5 725
Other financial expenses	(1 684)	(1 333)
	(26 824)	(18 280)
Interest income on cash and cash equivalents and temporary investments	12 446	5 115
	(14 378)	(13 165)

In 2006, the Company recorded a foreign exchange gain of \$2 879 000 in “Cost of goods sold” (loss of \$2 711 000 in 2005).

7. FUTURE INCOME TAX RECOVERY (EXPENSE)

During the preceding year, a future income tax recovery of \$9 561 000 from taxable joint ventures was recorded. In 2006, a valuation allowance of \$24 698 000 was recorded to reduce the carrying value of future income tax assets to zero, as it is more likely than not that these assets will not be realized.

8. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During 2006, the Company pursued its plan to sell certain non-strategic investments, specifically in the Mines, Metals, Materials and Forest Products segments. The operating results of these investments have been presented as discontinued operations in the consolidated statements of operations and cash flows, and the related assets and liabilities have been presented as “Assets held for sale” and “Liabilities of businesses held for sale” in the consolidated balance sheet.

Certain financial information has been reclassified in the prior period to present these businesses as “discontinued operations” in the statement of operations, as “assets held for sale” and “liabilities of businesses held for sale” in the balance sheet and as “cash flows from (used for) discontinued operations” in the statement of cash flows.

A write down of \$774 000 for the year ended December 31, 2006 (\$42 854 000 net of a gain of \$16 045 000 in 2005) was recorded in discontinued operations to reduce the carrying values of these businesses to their estimated fair values less cost to sell.

The fair values of discontinued operations have been estimated based on discounted cash flows or expected sales prices.

It is expected that the joint venture classified as held for sale as at December 31, 2006 will be sold in 2007.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

8. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

Significant financial information related to the businesses included in discontinued operations is as follows:

	2006	2005
Revenue	98 633	161 510
Cost of goods sold	91 357	146 121
Selling, general and administrative expenses	5 030	10 119
Amortization	613	7 018
Financial expenses	1 214	2 628
Other revenue	(363)	(1 159)
Operating earnings (loss)	782	(3 217)
Net asset impairment charges	(774)	(42 854)
Gain on disposal	8 759	7 141
Earnings (loss) from discontinued operations	<u>8 767</u>	<u>(38 930)</u>

Provided below are the assets held for sale and the liabilities of businesses held for sale:

	2006	2005
Current assets held for sale:		
Cash and cash equivalents		1 587
Temporary investments		4 245
Accounts receivable	142	23 199
Inventories	1 143	26 502
Prepaid expenses	72	359
Long-term assets of business sold		14 699
	<u>1 357</u>	<u>70 591</u>
Long-term assets held for sale:		
Long-term investments		556
Property, plant and equipment	1 431	30 180
Other assets	167	434
Less : long-term assets of business sold		(14 699)
	<u>1 598</u>	<u>16 471</u>
Current liabilities of businesses held for sale:		
Bank loans		8 427
Accounts payable and accrued liabilities	1 371	17 810
Current portion of long-term debt	463	17 154
Long-term liabilities of business sold		
	<u>1 834</u>	<u>43 391</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2006

(in thousands of dollars)

8. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

	2006	2005
Long-term liabilities of businesses held for sale:		
Long-term debt	1 121	10 747
Other long-term liabilities		3 007
Less : long-term liabilities of business sold		
	<u>1 121</u>	<u>13 754</u>

9. LONG-TERM INVESTMENTS

	2006		2005	
	Book value	Quoted market value	Book value	Quoted market value
Companies subject to significant influence, using the equity method	<u>119 315</u>		<u>123 186</u>	
Investment companies, at fair value (Note 9a))	<u>72 024</u>		<u>121 393</u>	
Investments, at cost:				
Domtar Inc. (Note 9b))	178 774	178 977	178 774	121 922
Cascades Inc.	100 000	99 849		
AEterna Zentaris Inc. (Note 9c)):				
Shares	57 562	41 587	40 000	31 467
Term loan, 12%			15 685	
Atrium Biotechnologies Inc.	17 102	50 082	17 102	43 117
Rona Inc. (Note 5)			16 788	77 430
Miranda Technologies Inc. (Note 5)	7 622	25 531	11 428	41 736
ORTHOsoft Inc.	7 000	7 292		
Loans and debentures:				
Interest bearing	22 304		17 279	
Non-interest bearing	1 569		2 647	
Other (Note 9d))	<u>17 141</u>		<u>26 310</u>	
	<u>409 074</u>		<u>326 013</u>	
	600 413		570 592	
Less current portion	<u>9 650</u>		<u>73 466</u>	
	<u>590 763</u>		<u>497 126</u>	

a) As at December 31, 2006, the cost of venture capital investments was \$148 428 000 (\$202 620 000 as at December 31, 2005).

b) On March 7, 2007, the Fine Paper business of Weyerhaeuser was combined with Domtar, and the shares of the new public company, Domtar Corporation, were listed on the various stock exchanges simultaneously with the withdrawal of Domtar Inc. shares from these same exchanges. As a result of this transaction, the Company received the same number of common shares of Domtar Corporation. The impact on the carrying value of the investment is not significant.

c) During the year, the Company exercises its right to convert the entire term loan that it had granted to AEterna Zentaris in April 2003. Under the terms of the loan, AEterna issued a total of 3 477 544 common shares to the Company at the time of conversion.

In December 2006, AEterna Zentaris announced a special distribution in kind of all of the remaining shares of Atrium Biotechnologies ("Atrium"). On January 2, 2007, the Company received 1 831 626 Atrium shares based on the number of common shares that it held in AEterna Zentaris. The Company recorded its investment in AEterna Zentaris at an amount that exceeds its quoted market value as at December 31, 2006, as it believes that this reduction in value is not permanent.

d) The fair value of other investments recorded at cost approximate their book value.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2006

(in thousands of dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	2006		2005
	Cost	Accumulated amortization	Net amount
Chemicals, Energy, Environment	806 732	313 683	493 049
Mines, Metals, Materials	380 548	58 088	322 460
Forest Products	380 068	60 093	319 975
Agri-Food	28 340	14 798	13 542
Segment totals	1 595 688	446 662	1 149 026
Corporate activities	12 698	9 114	3 584
	<u>1 608 386</u>	<u>455 776</u>	<u>1 152 610</u>
			<u>1 148 133</u>

- a) Amortization expense for the year ended December 31, 2006 amounts to \$73 736 000 (\$74 477 000 in 2005).
- b) Property, plant and equipment with a net value of \$13 000 000 as at December 31, 2006 (\$165 500 000 as at December 31, 2005) has not been amortized, as these assets are under construction or development or have been removed from service for an extended period of time.

11. OTHER ASSETS

	2006		2005
	Cost	Accumulated amortization	Net amount
Mining properties (Note 11b))	38 605		38 605
Operating licenses	50 092	11 698	38 394
Electricity purchase agreement	12 192	3 658	8 534
Grant receivable for exploration work	6 584		6 584
Land held for development projects	5 624		5 624
Accrued benefit asset (Note 21)	3 809		3 809
Other	11 328	5 223	6 105
	<u>128 234</u>	<u>20 579</u>	<u>107 655</u>
Less current portion	<u>1 518</u>		<u>1 518</u>
	<u>126 716</u>	<u>20 579</u>	<u>106 137</u>
			<u>102 069</u>

- a) Amortization for the year ended December 31, 2006 amounted to \$4 675 000 (\$5 050 000 in 2005).
- b) During the year, the Company recorded as a reduction to the cost of mining properties provisions or write-offs amounting to \$2 607 000 (\$6 305 000 in 2005).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2006

(in thousands of dollars)

12. LONG-TERM DEBT

	2006	2005
Secured (Note 12 a):		
Note, 7.27%, repayable in semi-annual principal instalments, commencing in 2006, maturing in 2017	115 932	120 952
Construction loan at a floating rate based on the banker's acceptance rate, the prime rate, the US base rate or LIBOR, maturing in 2007 (Note 12d))	59 605	61 154
Revolving bank loan at LIBOR and at the bankers' acceptance rate plus 1.75% and at the prime rate plus 0.75%, maturing in 2007 (Note 12 d))	25 056	49 096
Bank loan , 9.385%, repayable in quarterly principal instalment, commencing in 2006 and maturing in 2012	20 475	21 000
Bank loan at U.S. base rate plus 0.5%, repayable in one instalment, maturing in 2007	5 140	5 129
Bank loan at prime rate plus 0.75%, repayable in variable monthly instalments, maturing in 2013	3 608	4 320
Bank loan at U.S. base rate plus 0.5% to 1.5%, repayable in monthly instalments, maturing in 2009	3 119	
Subordinated debenture of a face value of \$12 500 000 at prime rate plus 0.5%, maturing in 2008	2 667	5 751
Amount due to Investissement Québec		
At prime rate plus 1.5%, maturing in 2012	85 141	78 890
At prime rate plus 1.5%, repayable in various monthly instalments, maturing in 2015	16 163	10 633
Loans reimbursed in 2006		5 769
Other	3 937	4 011
	<u>340 843</u>	<u>366 705</u>
Unsecured:		
Amount due to Investissement Québec:		
Non-interest-bearing, repayable at the latest in 2033	34 658	34 658
Non-interest-bearing, repayable subject to certain conditions	12 250	12 250
Debenture at a rate of 5% and maturing in 2011	5 664	5 398
Loans reimbursed in 2006		7 024
Other	16 446	17 009
	<u>69 018</u>	<u>76 339</u>
Total secured and unsecured long-term debt	409 861	443 044
Less current portion	<u>106 183</u>	<u>26 811</u>
	<u>303 678</u>	<u>416 233</u>

- a) Loans of the Company's businesses are secured by various types of securities on accounts receivable, inventories and other tangible and intangible assets and by hypothecs on all of the property whose book value totalled \$962 386 000 as at December 31, 2006.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

b) Long-term debt denominated in U.S. dollars amounted to US\$128 063 000 as at December 31, 2006 (US\$150 410 000 in 2005).

c) Principal repayments required in each of the next five years are as follows:

2007	106 183
2008	23 866
2009	18 990
2010	20 888
2011	26 743

d) The long-term debt of two joint ventures totalling \$84 661 000 was presented entirely in the current portion. These companies must finalize new credit agreements with their respective lenders, which they expect to sign in the near future.

e) The carrying amount of the long-term debt bearing interest approximates its fair value.

The fair value of long-term interest-free loans with a book value of \$49 770 000 could not be estimated because there were no comparable items.

13. OTHER LONG-TERM LIABILITIES

	2006	2005
Accrued benefit obligation (Note 21)	25 005	21 876
Asset retirement obligations	7 879	7 056
Other	4 308	4 130
	37 192	33 062
Less current portion	2 117	1 791
	<u>35 075</u>	<u>31 271</u>

14. SHARE CAPITAL

Authorized – par value of \$10 per share
292 500 000 common shares

	2006	2005
Issued		
217 334 018 common shares	<u>2 173 340</u>	<u>2 173 340</u>

The Company can request the shareholder to subscribe and pay for an additional 75 165 982 common shares, representing an amount of \$751 659 820.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

15. SUPPLEMENTARY CASH FLOW INFORMATION

a) The changes in non-cash operating working capital items are as follows:

	2006	2005
(Increase) decrease in:		
Accounts receivable	34 316	(56 659)
Inventories	(47 022)	(18 457)
Prepaid expenses	1 001	1 949
Increase (decrease) in:		
Accounts payable and accrued liabilities	18 230	(3 361)
	<u>6 525</u>	<u>(76 528)</u>

b) Further to the additions to 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 \$6 840 000 (\$12 637 000 in 2005) of which \$6 118 000 (\$9 108 000 in 2005) was financed through accounts payable and \$722 000 (\$3 529 000 in 2005) through other long-term liabilities.

16. ACQUISITIONS OF LONG-TERM INVESTMENTS

Acquisitions of long-term investments are detailed as follows:

	2006	2005
Subsidiary:		
Gestion forestière Lacroix Inc.	49 154	
Joint venture:		
Élevages Périgord (1993) Inc.	1 451	
Companies subject to significant influence:		
Fruits & Passion Group Inc.	15 000	
Other	1 360	2 093
Investments, at cost:		
Cascades Inc.	100 000	
Dark Castle Holdings, LLC	18 342	
ORTHOSOFT Inc.	7 000	
Other	206	454
Investment companies	<u>3 789</u>	<u>5 630</u>
	<u>196 302</u>	<u>8 177</u>

17. DISPOSAL OF BUSINESSES AND OF LONG-TERM INVESTMENTS

a) The proceeds on disposal of businesses and of long-term investments are as follows:

	2006	2005
Investments, at cost	123 835	88 790
Investment companies	54 197	15 413
Businesses (Note 17b))	45 203	23 857
Companies subject to significant influence	8 541	61 495
	<u>231 776</u>	<u>189 555</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousands of dollars)

17. DISPOSAL OF BUSINESSES AND OF LONG-TERM INVESTMENTS (cont'd)

- b) In 2006, the Company disposed of its investments in certain businesses. The net assets disposed, excluding cash and cash equivalents, are as follows:

	2006	2005
Current assets	57 773	11 995
Long-term investments	116	339
Property, plant and equipment	28 454	26 066
Other assets	351	5 208
	<u>86 694</u>	<u>43 608</u>
Current liabilities	25 282	21 291
Long-term debt	24 486	20 970
Other long-term liabilities	2 917	
	<u>52 685</u>	<u>42 261</u>
Net assets disposed	34 009	1 347
Net gain on disposal	8 759	15 395
Total consideration, net of disposed cash and cash equivalents	42 768	16 742
Net cash receipts related to balances of sale and purchase price adjustments	265	8 544
Net balance payable (paid) on disposals	<u>2 170</u>	<u>(1 429)</u>
Consideration received	<u>45 203</u>	<u>23 857</u>

18. FINANCIAL INSTRUMENTS

The Company uses the financial instruments described below:

a) Foreign currency

To reduce the impact of fluctuations in exchange rates on revenue denominated in foreign currency, the Company uses a combination of forward exchange contracts, options and currency swaps. As at December 31, 2006, the amounts committed to these financial instruments in U.S. dollars amounted to US\$29 500 000 (US\$40 077 000 in 2005). These instruments, maturing in 2007, had unrealized losses totalling \$358 000 as at December 31, 2006 (unrealized gains of \$1 172 000 in 2005).

b) Commodities contracts

To reduce the impact of fluctuations in the price of aluminium, the Company uses forward contracts. As at December 31, 2006, the Company was committed to 1 125 tons (9 125 tons in 2005) of aluminium. These contracts expire between January 2007 and October 2007 and, as at December 31, 2006, had unrealized gains of \$91 000 (unrealized losses of \$1 799 000 in 2005).

c) 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 rates.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2006

(in thousands of dollars)

18. FINANCIAL INSTRUMENTS (cont'd)**c) Interest rate risk (cont'd)**

In order to reduce the risk of interest rate fluctuations on the long-term debt, the Company enters into fixed interest rate swaps. As at December 31, 2006, the Company did not have any floating-to-fixed rate swaps (US\$15 000 000 in 2005). These agreements had an estimated fair market value of nil as at December 31, 2006 (\$67 000 in 2005).

d) 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, 2006, 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 an allowance 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, 2006.

19. 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:

	2006	2005
Consolidated Statement of Operations:		
Revenue	1 073 752	1 071 643
Expenses	1 054 763	1 112 200
Net loss	(113 379)	(40 557)
Consolidated Balance Sheet:		
Current assets	349 677	346 536
Long-term assets	1 229 401	1 278 825
Current liabilities	228 957	142 261
Long-term liabilities	221 651	318 821
Consolidated Statement of Cash Flows:		
Operating activities	(29 909)	(43 243)
Investing activities	6 491	(77 544)
Financing activities	(34 921)	7 406

20. COMMITMENTS, GUARANTEES AND CONTINGENCIES**a) Long-term leases and commitments**

The Company is committed under long-term leases to make minimum payments totalling \$122 839 000 as follows:

2007	14 116
2008	13 998
2009	11 827
2010	10 055
2011	8 980
2012 and thereafter	63 863

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousand of dollars)

20. COMMITMENTS, GUARANTEES AND CONTINGENCIES (cont'd)

a) Long-term leases and commitments (cont'd)

In addition, the Company is committed to acquire property, plant and equipment and to purchase services and raw materials totalling \$36 500 000 over the next few years. The Company is also committed to subscriptions for long-term investments, which amounted to \$8 400 000 as at December 31, 2006, in addition to those recorded as current and long-term liabilities on the Company's balance sheet.

b) Credit facilities

At December 31, 2006, the Company has available committed lines of credit totalling \$482 800 000, which can be used for short-term or long-term financing and bear interest at prime rate or at the money market rate.

c) Guarantees

In the normal course of business, the Company entered into certain agreements, elements of which meet the definition of "Guarantee" provided in "AcG14 – Disclosure of Guarantees". The main guarantees provided are as follows:

i) Supply contract

The Company offered a guarantee of a maximum amount of \$25 000 000 with respect to obligations under a client long-term supply contract.

ii) Financing agreements

Under the terms of its credit agreements, the Company undertook to indemnify the holders of U.S. indebtedness in the event of changes in the laws with regard to tax withholdings. These indemnification agreements will be in effect until the expiry of the loan agreements and do not contain any limits. Given the nature of these agreements, the Company cannot determine the maximum payment it may have to make to the holders. The Company did not recognize an amount on the consolidated balance sheet related to these indemnification agreements.

iii) Sales of businesses

When a business is sold in whole or in part, in addition to any potential indemnification arising from the failure to execute restrictive clauses or from non-compliance with a declaration of guarantee, the Company may agree to give a guarantee against any claim resulting from past activities. In general, the terms and conditions and amount of such indemnification are limited by agreement. As a result of the nature of these indemnification agreements, the Company cannot estimate the maximum potential amount of future payments it could be required to make to the indemnified parties. The Company did not recognize an amount on the consolidated balance sheet for these potential indemnifications.

d) Contingencies

During the normal course of business, the Company is involved in various claims. Although the outcome of these outstanding claims as at December 31, 2006 cannot be predicted, the Company believes that their resolution will not have a significant negative impact on its financial position, operating results and cash flows.

21. EMPLOYEE FUTURE BENEFITS

The Company offers various contributory and non-contributory defined benefit pension plans to its employees based on the years of service and average final earnings of these employees. In addition, the Company's employees receive other social benefits consisting mainly of group insurance plans; however, these plans are not funded.

The Company evaluates its accrued benefit obligations and the fair value of plan assets as at December 31 of each year for accounting purposes. The most recent actuarial valuations for the pension and other plans were conducted as at December 31, 2006 and the next ones are scheduled for 2009.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousand of dollars)

21. EMPLOYEE FUTURE BENEFITS (cont'd)

- a) The following table presents information relating to the Company's various plans, as at December 31, 2006, as established by independent actuaries:

	2006			2005
	Pension Plans	Other Plans	Total	Total
Accrued benefits obligations	133 385	18 457	151 842	143 469
Plan assets at fair value	101 053		101 053	88 324
Deficit, end of year	<u>(32 332)</u>	<u>(18 457)</u>	<u>(50 789)</u>	<u>(55 145)</u>
Accrued benefit asset	3 809		3 809	4 392
Accrued benefit liability	<u>(11 042)</u>	<u>(13 963)</u>	<u>(25 005)</u>	<u>(21 876)</u>
Net recorded amount	<u>(7 233)</u>	<u>(13 963)</u>	<u>(21 196)</u>	<u>(17 484)</u>
Expense for the year	7 184	2 013	9 197	7 440
Employer contributions	5 125		5 125	4 892
Employee contributions	1 731		1 731	1 831
Benefits paid	4 868	335	5 203	4 147

- b) The weighted average actuarial assumptions used by the Company as at December 31, are as follows:

	2006		2005	
	Pension plans %	Other plans %	Pension plans %	Other plans %
Accrued benefit obligations recorded as at December 31:				
Discount rate	5.20	5.10	5.20	5.70
Rate of compensation increase	3.40	3.20	3.60	3.40
Benefit costs for the years ended December 31:				
Discount rate	5.20	5.20	6.00	5.50
Long-term rate of return on assets	7.10		7.25	
Rate of compensation increase	3.60	3.30	3.65	3.40

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2006
(in thousand of dollars)

21. EMPLOYEE FUTURE BENEFITS (cont'd)

c) The assets of the pension plans are invested as follows:

	2006 %	2005 %
Shares	55	55
Bonds	36	37
Other	9	8
	<u>100</u>	<u>100</u>

For measurement purposes, an annual weighted average rate of increase in the cost of covered health care benefits of 8.7% was assumed for 2007 (9.15% for 2006). Based on the assumption used, this rate should decrease gradually to reach approximately 5% in 2012 and remain at that level thereafter.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**MANAGEMENT'S REPORT**

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 2006 have been audited by an independent firm of auditors, Samson Bélair/Deloitte & Touche, s.e.n.c.r.l., before their presentation to the Board of Directors, which has approved them upon recommendation of the duly constituted and appointed Audit Committee.

The 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.

The information contained in this annual report is consistent with 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
April 2, 2007

AUDITOR'S REPORT

To the shareholder of
Société générale de financement du Québec

We have audited the consolidated balance sheet of Société générale de financement du Québec (the "Company") as at December 31, 2006 and the consolidated statements of operation, deficit 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year, with the exception of the change in accounting policy described in Note 1.

The consolidated financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these consolidated financial statements in their report dated March 24, 2006.

Samson Bélair/Deloitte & Touche, s.e.n.c.r.l.
Chartered Accountants
Montréal, Québec
April 2, 2007

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
(R.S.Q., c. S-17.1)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
REVENUES		
Space rentals		
Government departments and client agencies	502 521	494 524
Other clients	13 248	13 565
Parking lots	28 494	27 994
Leasehold improvements and other services offered clients	74 644	87 566
Gain on transfer of immovable	1 435	2 225
Other	491	579
	<u>620 833</u>	<u>626 453</u>
EXPENSES		
Rent and business taxes on leased property	210 231	201 411
Operating expenses for immovable (Note 15)	142 727	137 320
Leasehold improvements and other services offered clients	71 827	85 013
Financial expenses – net (Note 16)	76 621	74 790
Real estate and business taxes on immovable	69 914	69 412
Amortization (Note 17)	36 043	33 333
General and administrative expenses – net (Note 18)	9 319	9 623
Restructuring costs		3 019
Depreciation of buildings intended for sale		3 118
	<u>616 682</u>	<u>617 039</u>
NET INCOME	4 151	9 414
RETAINED EARNINGS, AT THE BEGINNING	<u>88 448</u>	<u>79 034</u>
RETAINED EARNINGS, AT THE END	<u><u>92 599</u></u>	<u><u>88 448</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
BALANCE SHEET
 as at March 31, 2007
 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Immovable (Notes 3 and 4)	1 495 035	1 453 785
Receivables linked to development (Note 5)	150 497	147 771
Work in progress (Note 4)	17 693	21 491
Long-term investment (Note 6)	14 222	14 127
Equipment (Note 7)	8 514	8 364
Accounts receivable (Note 8)	25 328	45 045
Other assets – net (Note 9)	<u>22 227</u>	<u>23 422</u>
	<u><u>1 733 516</u></u>	<u><u>1 714 005</u></u>
LIABILITIES		
Long-term debt (Note 10)	1 077 989	1 003 205
Short-term borrowings (Note 11)	317 547	375 413
Accounts payable and accrued liabilities (Note 12)	127 643	132 549
Outstanding cheques less cash on hand	10 235	7 158
Interest-rate exchange agreements (Note 13)	<u>19 836</u>	<u>19 565</u>
	<u><u>1 553 250</u></u>	<u><u>1 537 890</u></u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 14)	80 001	80 001
Gouvernement du Québec contribution	7 666	7 666
Retained earnings	<u>92 599</u>	<u>88 448</u>
	<u><u>180 266</u></u>	<u><u>176 115</u></u>
	<u><u>1 733 516</u></u>	<u><u>1 714 005</u></u>

COMMITMENTS (Note 22)
CONTINGENCIES (Note 23)

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

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Accounts receivable– clients	601 157	610 943
Accounts payable– suppliers and staff members	(502 836)	(497 470)
Interest earned	9 201	10 020
Interest paid	<u>(85 109)</u>	<u>(85 075)</u>
Cash flows related to operating activities	<u>22 413</u>	<u>38 418</u>
INVESTMENT ACTIVITIES		
Acquisition of immovable	(75 888)	(68 797)
Receivables linked to development	35 202	43 260
Long-term investment	(95)	(69)
Acquisition of equipment	(1 827)	(1 981)
Acquisition of other net assets	(1 346)	(1 032)
Proceeds from sale of immovables	<u>1 912</u>	<u>3 053</u>
Cash flows related to investment activities	<u>(42 042)</u>	<u>(25 566)</u>
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	114 155	150 000
Proceeds from short-term net borrowings	(57 866)	(6 303)
Reimbursement of debt under capital lease contracts	(561)	(498)
Reimbursement of long-term debt	<u>(39 176)</u>	<u>(154 011)</u>
Cash flows related to financing activities	<u>16 552</u>	<u>(10 812)</u>
INCREASE IN (DECREASE) CASH AND CASH EQUIVALENTS *	<u>(3 077)</u>	<u>2 040</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(7 158)</u>	<u>(9 198)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>(10 235)</u></u>	<u><u>(7 158)</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 THE FINANCIAL STATEMENTS**

as at March 31, 2007

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société immobilière du Québec (SIQ) is a joint stock company established in September 25, 1984 by the Act respecting the Société immobilière du Québec (R.S.Q., c. S-17.1) to make buildings and property available to government departments and agencies, for a consideration, and provide them with construction, operating and management services.

The SIQ houses the majority of government departments and agencies, with the exception of health and education and, in this way, it is present throughout Québec.

Under section 984 of the Québec Taxation Act and section 149 of the Canada Income Tax Act, the SIQ is not subject to income tax.

2. ACCOUNTING POLICIES

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

Assets, liabilities and results linked to parking lots

The SIQ mandated a dealer to manage its parking lots. The SIQ's financial statements incorporate into each item concerned the assets, liabilities and results related to their management.

Immovables*- In operation*

Immovables in operation are recorded at cost, which includes all amounts related to the acquisition, construction, capital-lease contracts and improvement of capital assets.

Capital asset amortization is calculated at 5% in accordance with the annuity method so as to fully amortize building costs over periods ranging from 15 to 50 years.

- Under construction

Immovables under construction are recorded at cost which, in addition to direct costs, includes operating expenses, property taxes, interest and the portion of general and administrative expenses related thereto, less rental income. Immovables under construction are not deemed to be in operation until the project is fully completed and the premises have reached a satisfactory level of occupancy, after a reasonable time period.

When a project has been fully completed and the premises have reached a satisfying level of occupancy, after a reasonable time period, the cost of buildings under construction is transferred to buildings in operation or to major repairs.

- Major repairs

Major repairs to buildings being operated are reported at cost and amortized in accordance with the straight-line method over periods varying from 5 to 20 years. The cost includes the same elements as those described above for immovables under construction.

- Intended for sale

Immovables in operation are presented as destined for sale if management has approved the implementation of a sale plan, at a reasonable price, and if the sale is likely within a one—year period.

An immovable destined for sale is posted at its net book value or its fair value minus selling fees. Once an immovable is classified as destined for sale, no amortization in its regard is calculated.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

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 their book value might not be recoverable. Depreciation is assessed by comparing an asset's book value with the net non-capitalized cash flows envisaged for use and with its residual value. If the SIQ feels that the assets' value has depreciated, the amount of the depreciation is posted to charges for the fiscal year.

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. Work is recorded at cost with the amounts invoiced deducted from this cost.

Equipment

Equipment used for administrative purposes is recorded at cost and amortized in accordance with the straight-line method over periods ranging from 3 to 10 years.

Other assets - net

- *Deferred expenses*

Deferred expenses represent leasehold improvements calculated at cost and amortized in accordance with the straight-line method over the remaining duration of the lease, which varies from 3 to 25 years.

- *Computer system development*

The cost of developing computer systems is amortized in accordance with the straight-line method over a period of 5 years.

Revenue recording

- *Space rental*

Revenue from space rental is invoiced according to foreseeable costs. These costs are divided among the government's departments and agencies that are the SIQ's clients based on the terms and conditions resulting from the regulation respecting rate-setting of the SIQ's services. Occupancy agreements are signed by the SIQ and the departments and agencies of the Gouvernement du Québec subject to doing business with the SIQ.

- *Development and other services offered to clients*

Revenue is posted when the goods are delivered or the services rendered.

The interest earnings from receivables linked to development are recorded according to the duration of related receivables using the interest method in effect.

Financial instruments

- *Derivative financial instruments*

The SIQ uses swap agreements in its interest rate management program. Swap agreements give rise to periodic interest payment exchange without exchange of the notion on which the payments are based.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)***- Derivative financial instruments (cont'd)*

These swap agreements are reported at fair value and the annual change in this fair value is posted to results as an adjustment to financial costs.

The fair value is established using evaluation methods used in capital markets and reflects estimated amounts receivable or payable by the SIQ to terminate contracts at the date of the balance sheet.

- Other financial instruments

Payables linked to development, the short-term borrowing, the long-term debt and the related transaction fees, where applicable, are posted at cost after amortization using the effective rate method, where applicable.

Receivables, short-term borrowings, payables, accrued expenses and outstanding cheques minus cash on hand are reported at cost.

The long-term investment in a satellite corporation is reported at consolidation value.

Pension plans

Defined-contribution plan accounting is applied to inter-enterprise government defined-benefit plans given that the SIQ lacks sufficient information to apply defined-benefit plan accounting.

3. IMMOVABLES

	2007			2006
	Land	Buildings	Immovables under capital leases	Total
In operation	124 857	1 606 251	56 041	1 787 149
Under construction	239	43 779		44 018
Major repairs		35 078		35 078
Intended for sale				281
	125 096	1 685 108	56 041	1 866 245
Accumulated amortization		359 941	11 269	371 210
	125 096	1 325 167	44 772	1 495 035
				1 453 785

Acquisitions total \$76 676 million, of which \$14 632 million was unpaid at March 31, 2007 (2006: \$13.9 million).

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

4. EXPENSES CAPITALIZED TO IMMOVABLES AND WORK IN PROGRESS

	<u>2007</u>	<u>2006</u>
During the year, the following costs were capitalized:		
Wages and general and administrative expenses (Note 18)	7 080	8 029
Interest (Note 16)	1 497	1 146
Operating expenses, property taxes less rental income		<u>313</u>
	<u>8 577</u>	<u>9 488</u>

5. ACCOUNTS RECEIVABLE LINKED TO DEVELOPMENTS

Accounts receivable from government departments and agencies, repayable in monthly instalments including principal and interest at rates varying from 4.48% to 9.29%, due between 2008 and 2022.

The estimated amount of cash receipts break down as:

Fiscal year

2008	26 131
2009	23 412
2010	20 533
2011	17 447
2012	25 764
2013 to 2022	<u>37 210</u>
	<u>150 497</u>

6. LONG-TERM INVESTMENTS

	<u>2007</u>	<u>2006</u>
General partnership		
Cost	2 300	2 300
Share in results since its creation	3 052	2 622
Term loan, guaranteed by a first real estate mortgage, pari passu, at the rate of 6.51% *	<u>8 870</u>	<u>9 205</u>
	<u>14 222</u>	<u>14 127</u>

* This term loan was cashed in its entirety in April 2007.

7. EQUIPMENT

	<u>2007</u>	<u>2006</u>
Equipment	29 295	27 261
Accumulated depreciation	<u>20 781</u>	<u>18 897</u>
	<u>8 514</u>	<u>8 364</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

8. ACCOUNTS RECEIVABLE

	2007	2006
Related parties – jointly-controlled entities	20 373	40 412
Related parties – via management contract	3 430	2 794
Other	1 525	1 839
	<u>25 328</u>	<u>45 045</u>

9. OTHER ASSETS - NET

	2007	2006
Deferred expenses at amortized cost	18 792	19 826
Computer systems development, at amortized cost	620	727
Prepaid expenses	2 815	2 869
	<u>22 227</u>	<u>23 422</u>

10. LONG-TERM DEBT

	2007	2006
Bonds at fixed effective rates of 10.36% to 10.78%, guaranteed by the Gouvernement du Québec, maturing between 2013 to 2015 ^a	207 660	217 746
Notes owed to the Financing Fund of the Gouvernement du Québec Fixed effective rates of 4.64% to 6.56%, maturing between 2010 to 2039	820 251	705 889
Effective rate of bank acceptances maturing in the fiscal year		28 920
Commitments under capital leases ^b	49 653	50 214
Borrowings at varying rates and terms	425	436
	<u>1 077 989</u>	<u>1 003 205</u>

Payments of principal, excluding capital lease contracts, are:

Fiscal year

2008	13
2009	15
2010	28 414
2011	19
2012	<u>124 593</u>
	153 054
2013 to 2017	681 569
2018 to 2022	106
2023 to 2027	2
2028 to 2032	54 597
2033 to 2039	<u>139 008</u>
	<u>1 028 336</u>

- a On March 28 of every year until 2012 inclusive, series E holders (\$59.4 million) may demand the redemption by the SIQ of the bonds at par value. The annual maximum value of bonds the SIQ would be required to redeem over the next five fiscal years is \$9 million annually.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2007

(in thousands of dollars)

10. LONG-TERM DEBT (cont'd)

b The minimum payments for capital leases for the coming fiscal years are:

Exercise

2008	9 464
2009	9 464
2010	9 464
2011	9 464
2012	9 464
Thereafter	162 853
Total minimum payments payable	210 173
Less: Theoretical interest at a rate of 10.56%	83 825
Incidental expenses	76 695
	160 520
	49 653

11. SHORT-TERM BORROWINGS

The SIQ's short-term borrowings bear interest at an average rate of 4.39% and mature from April 2 to May 1, 2007.

At March 31, 2007, the SIQ contracted short-term borrowings of \$317.5 million (2006: \$375.4 million), of which \$249.4 million comes from the Gouvernement du Québec's Financing Fund (2006: \$298.7 million).

The SIQ has a \$200 million credit line with a financial institution. This credit line bears interest at the prime rate and is renewable at least once annually. The credit is to be used to finance the SIQ's overall needs. At March 31, 2006 and 2007, this credit line was unused.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Related parties – controlled entities	50 903	53 681
Other	76 740	78 868
	127 643	132 549

13. INTEREST-RATE EXCHANGE AGREEMENTS (SWAPS)

The following chart presents the characteristics of the swaps which give rise to periodic exchanges with the Ministère des Finances for interest payments without exchange of the notional amount the payments are based on.

			2007	2006
Notional amount	Fixed interest rate	Maturity	Fair value	
20 000	5.629%	15-06-2008	406	700
40 300	6.720%	08-05-2030	11 647	11 438
35 000	6.298%	29-09-2030	7 783	7 427
95 300			19 836	19 565

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

14. CAPITAL STOCK

SIQ shares are held by the Minister of Finance.

	2007	2006
Authorized:		
100 000 shares with a par value of \$1 000 each		
Issued and paid up:		
80 001 shares	80 001	80 001

15. OPERATING EXPENSES FOR IMMOVABLES

	2007	2006
Operating	96 653	95 899
Wages, other direct costs and general expenses posted to operations of immovables (Note 18)	34 793	29 728
Preservation	7 638	8 289
Amortization of major repairs	2 309	1 189
Relocation expenses	1 334	2 215
	<u>142 727</u>	<u>137 320</u>

16. FINANCIAL EXPENSES - NET

	2007	2006
Interest expenses:		
Long-term debt		
Related parties – controlled entity	43 379	41 398
Other	23 242	23 981
Increase in fair value of interest-rate exchange agreements	271	2 072
Commitments under capital leases	5 269	5 331
Short-term borrowings		
Related parties – controlled entity	13 120	11 930
Other	2 907	2 177
	<u>88 188</u>	<u>86 889</u>
Interest income:		
Receivables linked to development	8 504	9 166
Other	546	679
	<u>9 050</u>	<u>9 845</u>
Amounts carried forward	<u>79 138</u>	<u>77 044</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

16. FINANCIAL EXPENSES - NET

	2007	2006
Amounts brought forward	79 138	77 044
Minus:		
Interest capitalized to immovables and to work in progress (Note 4)	1 497	1 146
Interest posted to results under general and administrative expenses	1 020	1 108
	2 517	2 254
	<u>76 621</u>	<u>74 790</u>

17. AMORTIZATION

	2007	2006
Immovables	34 944	31 055
Equipment and other assets - net	4 218	4 348
	39 162	35 403
Minus:		
Amortization charged to results under general and administrative expenses and operating expenses for immovables	3 119	2 070
	<u>36 043</u>	<u>33 333</u>

18. GENERAL AND ADMINISTRATIVE EXPENSES - NET

	2007	2006
Salaries and fringe benefits	40 312	38 946
Administrative offices expenses by SIQ	6 029	3 637
Other administrative expenses	4 851	4 797
	51 192	47 380
Minus:		
Expenses capitalized to immovables and work in progress (Note 4)	7 080	8 029
Expenditures charged to operating costs of immovables (Note 15)	34 793	29 728
	41 873	37 757
	<u>9 319</u>	<u>9 623</u>

19. FINANCIAL INSTRUMENTS REPORTED AT COST**A) Interest-rate risk**

The financial assets and liabilities that bear interest at fixed rates do not expose the SIQ 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 \$2 million.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007
(in thousands of dollars)

19. FINANCIAL INSTRUMENTS REPORTED AT COST (cont'd)**B) Credit risk**

The SIQ 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 SIQ establishes a provision for bad debts based on specific clients' credit risk and historical trends.

C) Fair value

Long-term debt: the fair value of this instrument is determined by actualizing future cash flow under current financing agreements at interest rates offered to the SIQ on the market for borrowings with similar conditions and terms. The fair value of the long-term debt at March 31, 2007 was \$1 206.7 million and the book value \$1 078.0 million (\$1 125.8 million vs. \$1 003.2 million at March 31, 2006).

Accounts receivable, short-term borrowings, accounts payable, accrued expenses, outstanding cheques minus cash: the fair value of these instruments is equivalent to their book value, given that they mature in the short term.

Payables linked to developments: the fair value of this instrument is determined by the actualization of future cash flows at the market interest rate applicable to similar debts. The anticipated payment rate could not be considered given the uncertainty concerning the amounts to be repaid in advance. The fair value at March 31, 2007 was \$155.7 million and the book value \$150.5 million (\$153.8 million vs. \$147.8 million at March 31, 2006).

Short-term loan: the fair value of this instrument equals its book value because it was cashed in April 2007.

20. FUTURE FRINGE BENEFITS**Pension plans**

SIQ staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan of Management Personnel (PPMP) or Pension Plan of Senior Civil Servants (PPSCS) administered by a Québec government agency. These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The SIQ's contributions charged to the year-end statement totalled \$1.7 million (2006: \$1.7 million). Its liability towards these government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2007		2006
	Sick leave	Vacation time	Total
Balance, beginning of year	5 173	3 450	8 623
Annual expenses	1 299	3 604	4 903
	6 472	7 054	13 526
Benefits paid	1 091	3 309	4 400
	5 381	3 745	9 126
Balance, end of year	5 381	3 745	9 126
			8 623

The balance of this provision is included under the item "Accounts receivable and accrued liabilities".

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2007

(in thousands of dollars)

21. RELATED PARTY TRANSACTIONS

The proceeds from developments and other services offered clients come from transactions concluded with client government departments and agencies.

In addition to the related party transactions disclosed above and in its financial statements and measured at exchange value, the SIQ is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it.

The SIQ did not 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.

22. COMMITMENTS**Operating leases**

The minimum payments required under operating leases are:

Fiscal year

2008	197 409
2009	174 116
2010	139 553
2011	116 272
2012	97 443
Thereafter	<u>469 201</u>
	<u>1 193 994</u>

Construction and major leasehold improvement projects

At March 31, 2007, external work and fees related to construction and major leasehold improvement projects were part of contractual agreements totalling \$32 million (2006: \$33 million).

23. CONTINGENCIES**Disputes**

In the normal course of its business, the SIQ is exposed to various claims and lawsuits. Management feels that an appropriate provision was made for disbursement that might result from these disputes and does not foresee any unfavourable effect on the SIQ's financial position and operating results.

Environment

The SIQ's activities are subject to environmental laws and regulations adopted by government authorities. The SIQ deems that the environmental risks are properly managed and no real or probable liability can be envisaged.

24. COMPARATIVE FIGURES

Certain 2006 figures have been reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**MANAGEMENT'S REPORT**

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 prepared in accordance with Canadian generally accepted accounting principles 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 to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded.

The Board of Directors fulfilled its responsibility with regard to the financial statements, mainly through the auditing committee. This committee met periodically with management and the internal auditor to ensure that the internal accounting controls were adequate and that the financial data pertaining to the SIQ was reported in its entirety. The committee examined the financial statements and recommended that the Board of Directors approve them.

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

Marc-A. Fortier, Adm. A.
President of Board of Directors, President and Chief Executive Officer

Jacques Vaillancourt, CA
Vice-President, Administration and Finance

Québec, May 30, 2007

AUDITING COMMITTEE'S REPORT

The auditing committee is composed exclusively of independent external administrators. It reports directly to the Board of Directors.

The auditing committee regularly meets with the Auditor General and its internal auditor, which have full, direct access to the committee.

The committee members have examined the financial statements for the fiscal year ended March 31, 2007 and discussed them with the corporation's senior management.

The auditing committee also discussed the new requirements and auditing standards in effect this fiscal year with the Auditor General, and examined the latter's comments.

Based on the audits and examinations conducted, the auditing committee recommended that the Board of Directors approve the audited financial statements.

Sebastiano Faustini, CA
Chairman, Auditing Committee

Québec, May 30, 2007

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société immobilière du Québec as at March 31, 2007 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the SIQ's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the SIQ as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the change in the measurement of financial instruments and reporting of major repairs 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 18, 2007

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL
(R.S.Q., c. S-17.2.0.1)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31

	<u>2007</u>	<u>2006</u>
REVENUES		
Interest	\$646 978	\$1 147 293
Other	<u>115 674</u>	<u>758 691</u>
	<u>762 652</u>	<u>1 905 984</u>
EXPENSES		
Investment expenses		
Investment management fees	15 780	42 372
Loss on sale of investments		20 000
Bad debts		96 731
Exchange loss	17 308	75 806
Interest charges	<u>386 468</u>	<u>396 785</u>
	<u>419 556</u>	<u>631 694</u>
Operating expenses		
Professional and contractual services	14 606	60 035
Administrative service fees - Jointly-controlled related entity	132 813	133 750
Rent and taxes		95 874
Insurance	95 193	(23 558)
Travel and business development		7 622
Office expenses	2 762	10 156
Communications		15 635
Loss on sale of capital assets		<u>15 114</u>
	<u>245 374</u>	<u>314 628</u>
NET INCOME	97 722	959 662
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(227 431 318)</u>	<u>(228 390 980)</u>
CUMULATED DEFICIT, END OF YEAR	<u><u>\$(227 333 596)</u></u>	<u><u>\$(227 431 318)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**BALANCE SHEET**
as at March 31

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	\$4 333	\$21 078
Short-term investments (Note 3)	5 792 700	5 409 895
Investments (Note 4)	8 413 457	7 456 182
Other	<u>118 501</u>	<u>263 659</u>
	<u><u>\$14 328 991</u></u>	<u><u>\$13 150 814</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable (Note 5)	\$301 130	\$177 950
Borrowing (Note 4)	<u>8 413 457</u>	<u>7 456 182</u>
	<u>8 714 587</u>	<u>7 634 132</u>
Shareholder's equity		
Share capital (Note 6)	232 948 000	232 948 000
Cumulated deficit	<u>(227 333 596)</u>	<u>(227 431 318)</u>
	<u>5 614 404</u>	<u>5 516 682</u>
	<u><u>\$14 328 991</u></u>	<u><u>\$13 150 814</u></u>

INVESTMENT COMMITMENTS (Note 8)
CONTINGENCY (Note 9)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre-B. Lafrenière, Chairman of the Board of Directors
André Côté, Director

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALSTATEMENT OF CASH FLOWS
for the year ended March 31

	<u>2007</u>	<u>2006</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net income	\$97 722	\$959 662
Adjustment for:		
Losses on sale of capital assets		15 114
	<u>97 722</u>	<u>974 776</u>
Change in assets and liabilities linked to operations:		
Other assets	145 158	908 751
Accounts payable	<u>123 180</u>	<u>(2 278 620)</u>
	<u>268 338</u>	<u>(1 369 869)</u>
	<u>366 060</u>	<u>(395 093)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Revenues from sale of capital assets		45 643
Acquisition of investments	(1 694 921)	(2 562 909)
Revenues from sale of investments	<u>737 646</u>	<u>3 106 728</u>
	<u>(957 275)</u>	<u>589 462</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Borrowing	1 694 921	2 562 909
Repayment of borrowing	(737 646)	(3 106 728)
Capital stock buyback for cash		<u>(29 000 000)</u>
	<u>957 275</u>	<u>(29 543 819)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	366 060	(29 349 450)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 430 973</u>	<u>34 780 423</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$5 797 033</u>	<u>\$5 430 973</u>
CASH AND CASH EQUIVALENTS		
Cash	\$4 333	\$21 078
Short-term investments	<u>5 792 700</u>	<u>5 409 895</u>
	<u>\$5 797 033</u>	<u>\$5 430 973</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. GOVERNING STATUTE AND MISSION

Société Innovatech du Grand Montréal is a legal person established under Chapter 33 of the 1992 statutes and established as a company with share capital by virtue of its governing statute, the Act respecting Société Innovatech du Grand Montréal (R.S.Q., c. S-17.2.0.1).

Given that the Société sold almost all of its investments in March 2005, its activities can now be summarized as passively holding investments in limited partnerships for another corporation.

Pursuant to federal and provincial income tax legislation, the Société is not subject to income taxes.

2. ACCOUNTING POLICIES

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

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that are readily convertible into a cash amount whose value is unlikely to change significantly under cash and cash equivalents.

Short-term investments

Short-term investments are posted at cost.

Investments

Investments are made in the form of shares in a limited partnership and are posted at cost.

Currency conversion

Monetary assets and liabilities in foreign currency are converted into Canadian dollars using the exchange rate in effect the date of the balance sheet. Revenues and expenses in foreign currency are converted into Canadian dollars using the exchange rate in effect that date of the transaction. Exchange gains and losses are posted to results.

3. SHORT-TERM INVESTMENTS

The Société's cash surpluses are invested in a treasury management fund and in liquid, low-risk investment vehicles.

	2007	2006
Cash Management Fund	\$86 395	\$3 485 446
Deposit certificates, 4.3% and 5.2%, maturing in April 2007	5 706 305	1 924 449
	<u>\$5 792 700</u>	<u>\$5 409 895</u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. INVESTMENT**

	<u>2007</u>	<u>2006</u>
Investments in limited partnerships	<u>\$8 413 457</u>	<u>\$7 456 182</u>

In March 2005, Société Innovatech du Grand Montréal sold almost all of its long-term investments. Given restrictions on the transfer of some of its investments, seven equity interests in limited partnerships could not be sold to the buyer. The Société holds other investments whose book value and fair value are zero.

In order to transfer the fair value risk of investments in limited partnerships to the buyer, a derivative contract was signed with the latter. Among others, this contract foresees the buyer paying an amount corresponding to interest of 5% on investments, payable on a quarterly basis. Also, when the contract expires in March 2015, it provides for the buyer buying back the Société's investments at book value.

Further, the Société contracted a borrowing from the buyer bearing interest at an annual rate of 5%, payable on a quarterly basis. Additional amounts will be loaned by the buyer if the Société must invest amounts in the form of capital contributions in the limited partnerships kept. The borrowing will be repaid from the amounts received by the Société for distributions from the limited partnerships. The borrowing is repayable no later than March 2015.

5. ACCOUNTS PAYABLE

	<u>2007</u>	<u>2006</u>
Accounts payable ¹	\$290 634	\$167 360
Payable	<u>10 496</u>	<u>10 590</u>
	<u>\$301 130</u>	<u>\$177 950</u>

1 Includes \$286 555 (2006: \$133 750) owed to a jointly-controlled related entity.

6. SHARE CAPITAL

The principal purpose of the Act respecting Société Innovatech du Grand Montréal is to enable the Société to continue its existence and to be endowed with authorized capital of \$350 000 000.

	<u>2007</u>	<u>2006</u>
Authorized:		
3 500 000 common shares with a par value of \$100 each		
Issued and paid:		
2 329 480 common shares	<u>\$232 948 000</u>	<u>\$232 948 000</u>

The share capital is issued to the Minister of Finance and is therefore the responsibility of the Gouvernement du Québec.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

7. 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.

8. INVESTMENT COMMITMENTS

As at March 31, 2007, the Société's commitments to limited partnerships were \$3 706 993, which are taken over by the buyer under a derivative contract.

9. CONTINGENCY

A lawsuit has been instituted against the Société and the other partners involved in an investment for a maximum of \$1 886 343. The suit for damages instituted by the opposing party involves the parties jointly and severally. At the date the financial statements were prepared, the Société was unable to evaluate the outcome of this lawsuit or the resulting financial impacts, if applicable.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Given that they mature in the short term, the fair value of cash, short-term investments, other assets and accounts payable equals their book value.

Given the derivative contract between the Société and the buyer, although the fair value of the investment and the borrowing is \$7 798 000, the latter equals the book value since the buyer is affected by the gain or loss in value.

11. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Société Innovatech du Grand Montréal as at March 31, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 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, October 2, 2007

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
(R.S.Q. c. S-17.2.2)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Interest income	\$517 119	\$31 814
Investment and management fees	5 100	3 246
Gains on sale of investments	589 531	919 201
Changes in unrealized added values	5 734 058	2 801 606
Interest on bank balance and short-term investment	<u>158 339</u>	<u>48 554</u>
	<u>7 004 147</u>	<u>3 804 421</u>
EXPENSES RELATED TO INVESTMENTS		
Losses on sale of investments		54 042
Changes in unrealized value losses	1 797 302	12 079 823
Doubtful accounts	<u>300</u>	<u>166</u>
	<u>1 797 602</u>	<u>12 134 031</u>
GAIN (LOSS) RELATED TO INVESTMENTS	<u>5 206 545</u>	<u>(8 329 610)</u>
OPERATING EXPENSES:		
Salaries and fringe benefits	558 101	620 015
Professional and contractual services	134 955	182 465
Rent and insurance	80 147	81 202
Travelling and business development	23 122	41 003
Office expenses	31 479	44 821
Advertising and promotion	631	(6 202)
Telephone	11 480	11 506
Training	8 555	96
Bank charges	2 504	2 036
Loss on sale of capital assets	686	1 880
Amortization of capital assets	<u>32 821</u>	<u>34 728</u>
	<u>884 481</u>	<u>1 013 550</u>
NET GAIN (NET LOSS)	4 322 064	(9 343 160)
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(45 942 488)</u>	<u>(36 599 328)</u>
	<u><u>\$(41 620 424)</u></u>	<u><u>\$(45 942 488)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**BALANCE SHEET**
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	\$3 626 052	\$3 387 925
Short-term investment (Note 3)	406 711	391 162
Accounts receivable	36 029	24 365
Revenue from sale receivable, interest-free	723 510	
Prepaid expenses	<u>10 648</u>	<u>10 892</u>
	4 802 950	3 814 344
Investments and loans (Note 4)	9 135 936	5 827 340
Capital assets (Note 5)	<u>17 030</u>	<u>38 980</u>
	<u>\$13 955 916</u>	<u>\$9 680 664</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$75 540</u>	<u>\$122 352</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	55 500 800	55 500 800
Cumulated deficit	<u>(41 620 424)</u>	<u>(45 942 488)</u>
	<u>13 880 376</u>	<u>9 558 312</u>
	<u>\$13 955 916</u>	<u>\$9 680 664</u>
COMMITMENTS (Note 9)		
CONTINGENCIES (Note 10)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Roger Noël, Vice-chairman
 Guy Fouquet, Member of the Board of Directors

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Net gain (Net loss)	\$4 322 064	\$(9 343 160)
Adjustments for:		
Amortization of capital assets	32 821	34 728
Capitalized interest on investments	(433 419)	
Realized gains on sale of investments	(589 531)	(919 201)
Change in unrealized added values	(5 734 058)	(2 801 606)
Realized losses on sale of investments		54 042
Change in unrealized value losses	1 797 302	12 079 823
Loss on sale of capital assets	686	1 880
	<u>(604 135)</u>	<u>(893 494)</u>
Changes in non-cash items related to operations:		
Increase in revenue from sale receivable	(723 510)	
Change in creditors	(11 664)	77 746
Decrease in prepaid costs	244	7 406
Decrease in debtors and accrued costs	<u>(46 812)</u>	<u>(13 814)</u>
Cash flows for operations	<u>(1 385 877)</u>	<u>(822 156)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(13 837)	(19 058)
Acquisition of investments	(1 263 550)	(1 403 844)
Recovery of loans and debentures	50 000	50 000
Revenue from sale of investments	2 864 660	2 756 279
Revenue from sale of capital assets	<u>2 280</u>	<u>876</u>
Cash flows from investment activities	<u>1 639 553</u>	<u>1 384 253</u>
FINANCING ACTIVITIES		
Cash flows from:		
Capital stock issue (Note 6)		<u>2 000 000</u>
CHANGE IN CASH AND CASH EQUIVALENTS	253 676	2 562 097
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3 779 087</u>	<u>1 216 990</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	<u>\$4 032 763</u>	<u>\$3 779 087</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2007

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), 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 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

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

Currency conversion

The Société uses the temporal method to convert its accounts into currency.

Currency conversion

Monetary assets and liabilities are converted at the exchange rate the date of the balance sheet. Other assets and liabilities are converted at the original rate. The account balance shown in the statement of operations is converted at the fiscal year's average rate. Exchange gains and losses posted to the fiscal year's results.

Short-term investments

Short-term investments are posted at fair value.

Investments and loans

The Société is an investment company within the meaning of Accounting Guideline 18 (AcG-18) – Investment companies of the Canadian Institute of Chartered Accounts Handbook.

Investments are recorded at fair value, i.e. the estimated exchange value agreed on by competent parties acting freely under fully competitive conditions. The fair value is established as follows:

a) Unlisted shares

Unlisted shares comprise shares, shares in limited partnerships, debentures, loans and derivative instruments. They are evaluated using techniques that are recognized on the market, including primarily reference to an offer to purchase or transactions with an unrelated third party and capitalization of cash flows.

Debentures and loans, including the corresponding capitalized and accrued interest, are presented at the estimated capitalizable value. If the amounts and moment of cash flow capitalization cannot be reasonably and reliably estimated, the estimated capitalization value is based on observable market prices for these loans or management's judgement.

When a loan is considered doubtful, the related interest is not recorded.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)**Investments and loans (cont'd)****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 asset 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

It is the Société's policy to present bank balances, minus outstanding cheques and short-term investments that are convertible in the short term and whose value is unlikely to change under cash and cash equivalents.

Capital assets

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

Furniture and equipment	20%
Computer equipment and material	20% and 33%
Leasehold improvements	20% or the remainder of the lease

The Société regularly examines the book value of its capital assets, comparing it with unrealized future cash flows expected to be generated by them. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Revenue reporting*Investment income*

Investment operations are posted on the date of the operation and the resulting revenues are posted on an accrual basis. Interest income is recorded according to the number of days the investment is held during the fiscal year. Dividends are recorded as of the date of the former dividend. Gains and losses on the sale of investments are established using the average cost method.

Other revenue

Other revenue is recorded when there is convincing evidence of an agreement, services have been rendered, the price is, or can be, determined and recovery is reasonably certain.

3. SHORT-TERM INVESTMENT

The short-term investment represents liquid assets invested in a common cash flow management fund, a low-risk liquid investment vehicle. The Société holds Monetary Market Fund units whose yield varies and which mature within a maximum of two working days.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. INVESTMENTS AND LOANS**

	Fair value 2007	Fair value 2006
Common shares		
Private corporations	\$1 570 685	\$335 848
Public corporations	4 334 634	3 193 979
Securities convertible to shares		
Preferred shares		
Non-redeemable	770 000	511 017
Debentures and loans		
maturing until December 2007	350 000	1 575 896
no maturity date		25 000
Non-convertible securities		
Preferred shares		
Non-redeemable	1 433 419	
Debentures and loans		
maturing until June 2008	677 198	25 000
Shares in a limited partnership		160 600
	<u>\$9 135 936</u>	<u>\$5 827 340</u>

5. CAPITAL ASSETS

	2007		2006
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$24 103	\$20 376	\$3 727
Computer equipment and material	27 310	14 007	13 303
Leasehold improvements	45 243	45 243	22 621
	<u>\$96 656</u>	<u>\$79 626</u>	<u>\$17 030</u>
			<u>\$38 980</u>

6. CAPITAL STOCK

The Act respecting the Société Innovatech du Sud du Québec is designed to allow the Société to survive and be endowed with an authorized partnership fund of \$100 000 000.

Shares in the Société's partnership fund belong to the public domain and are assigned to the Minister of Finance.

Authorized:

1 000 000 common shares with a par value of \$100 each

	2007	2006
Issued and paid:		
555 008 common shares	<u>\$55 500 800</u>	<u>\$55 500 800</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
7. CASH FLOWS

Cash and cash equivalents shown in the cash flow statements include the following amounts posted to the balance sheet:

	2007	2006
Cash on hand	\$3 626 052	\$3 387 925
Short-term investment	406 711	391 162
	<u>\$4 032 763</u>	<u>\$3 779 087</u>

8. RELATED PARTY TRANSACTIONS

The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The issuing of capital stock, already disclosed in the financial statements, was recorded at exchange value. The Société did not 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. COMMITMENTS

As at March 31 2007, the Société's commitments with respect to financial support for initiatives were \$210 000 (\$1 416 683 as at March 31, 2006). These commitments represent the investments authorized by the Société's Board of Directors, which had not been disbursed at March 31, 2007. Following certain events, these amounts might not be paid out.

10. CONTINGENCIES

In a transaction involving the sale of an investment, the Société vouched for the buyer until June 2011 against potential claims for a maximum amount of \$250 000. The probability that the Société will have to assume this liability are undetermined since potential proceedings may be instituted against this company by clients, sub-contractors or any other person related to it. If disbursements are necessary, they are posted to the fiscal year in which the commitment is made.

11. FINANCIAL INSTRUMENTS
Fair value

The fair value of short-term financial instruments is assessed at their book 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, 2007, investments fall into the following sectors:

	2007	2006
Biotechnologies	53%	78%
Information technologies	14%	16%
Industrial technologies	33%	6%

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**11. FINANCIAL INSTRUMENTS (cont'd)****Interest-rate risk**

Interest rates on investments and the inherent risk to which the Société is exposed regarding interest rates at March 31, 2007 are:

	Fair value		
	Convertible debentures and loans	Non- convertible debentures and loans	Total
Fixed rates:			
Between 12 and 13%	\$350 000	\$260 273	\$610 273
14 and 15%		30 000	30 000
16% and more		386 925	386 925
	<u>\$350 000</u>	<u>\$677 198</u>	<u>\$1 027 198</u>

Average effective interest rate: 15.32%.

12. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

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

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

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

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements for the year ended March 31, 2007. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

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

Jean-Jacques Caron, P.Eng., M.Sc.A., M.Env.
Executive Vice-President

Lucie Parent, B.A.A.
Comptroller

Sherbrooke, May 17, 2007

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, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 17, 2007

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
(R.S.Q., c. S-17.4)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007	2006
REVENUES		
Investment income	\$885 742	\$1 210 292
Interest on short-term investments	637 838	184 098
Management fees	48 500	112 123
Gain on sale of investments	229 998	9 265 579
Change in unrealized added value	1 748 643	5 063 945
Gain on sale of capital assets	1 220	
	<u>3 551 941</u>	<u>15 836 037</u>
EXPENSES		
Operating expenses (Note 11)		
Salaries and fringe benefits	575 683	825 319
Professional and contractual services	162 629	197 025
Rent	94 397	123 360
Advertising and promotion	23 128	41 273
Travelling and business development	39 605	53 256
Office expenses	80 250	108 687
Communications	19 117	18 437
Exchange losses	56 978	79 313
Amortization of capital assets	27 630	30 806
	<u>1 079 417</u>	<u>1 477 476</u>
Doubtful debts	19 650	4 001
Loss on sale of investments	7 539 730	3 567 632
Change in unrealized loss in value	<u>7 539 274</u>	<u>9 103 404</u>
	<u>15 098 654</u>	<u>12 675 037</u>
	<u>16 178 071</u>	<u>14 152 513</u>
NET INCOME (NET LOSS)	<u><u>\$(12 626 130)</u></u>	<u><u>\$1 683 524</u></u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED DEFICIT
for the year ended March 31, 2007

	2007	2006
BALANCE, BEGINNING OF YEAR	\$(57 073 103)	\$(58 756 627)
(Net loss) net income	<u>(12 626 130)</u>	<u>1 683 524</u>
BALANCE, END OF YEAR	<u><u>\$(69 699 233)</u></u>	<u><u>\$(57 073 103)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$2 866 335	\$4 039 542
Short-term investments (Note 3)	11 586 389	12 504 597
Accounts receivable (Note 4)	165 953	315 251
Revenue from sales receivable, without interest	494 164	499 899
Other assets (Note 6)	350 000	
Prepaid expenses	36 609	25 528
	<u>15 499 450</u>	<u>17 384 817</u>
Revenue from sales receivable		499 899
Investments (Notes 7 and 14)	41 609 060	51 965 735
Capital assets (Note 5)	<u>60 608</u>	<u>28 529</u>
	<u><u>\$57 169 118</u></u>	<u><u>\$69 878 980</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$85 255</u>	<u>\$168 987</u>
EQUITY CAPITAL		
Capital stock (Note 8)	126 783 096	126 783 096
Cumulated deficit	<u>(69 699 233)</u>	<u>(57 073 103)</u>
	<u>57 083 863</u>	<u>69 709 993</u>
	<u><u>\$57 169 118</u></u>	<u><u>\$69 878 980</u></u>
COMMITMENTS (Note 12)		
CONTINGENCY (Note 13)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Francine Laurent
Francine Bonicalzi

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESSTATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
(Net loss) net income	\$(12 626 130)	\$1 683 524
Items not affecting cash flows:		
Amortization of capital assets	27 630	30 806
Capital interest on investments	(198 268)	(507 224)
Stock dividends (Note 10)	(154 201)	
Gain on sale of investments (Note 10)	(229 998)	(9 265 579)
Change in realized added value	(1 748 643)	(5 063 945)
Loss on sale of investments (Note 10)	7 539 730	3 567 632
Change in unrealized loss in value (Note 10)	7 539 274	9 103 404
Other items not affecting cash flows		(932)
	149 394	(452 314)
Change in non-cash items related to operations (Note 9)	60 220	(296 850)
Cash flows related to operating activities	209 614	(749 164)
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(59 709)	(5 469)
Acquisition of investments (Note 10)	(4 099 418)	(6 531 459)
Acquisition of other assets	(350 000)	
Recovery of debentures, loans and refundable contributions (Note 10)	1 291 995	1 842 233
Revenue from sale of shares (Note 10)	916 103	16 411 555
Cash flows related to investment activities	(2 301 029)	11 716 860
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2 091 415)	10 967 696
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16 544 139	5 576 443
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$14 452 724</u>	<u>\$16 544 139</u>
Cash on hand	\$2 866 335	\$4 039 542
Short-term investments	11 586 389	12 504 597
Cash and cash equivalents, end of year	<u>\$14 452 724</u>	<u>\$16 544 139</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Société Innovatech Québec et Chaudière-Appalaches is a legal person established in the public interest under Chapter 80 of the 1993 statutes and continued as a corporation through its governing statute, the Act respecting Société Innovatech Québec et Chaudière-Appalaches (R.S.Q., c. S-17.4), to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act, thereby enhancing Québec's competitiveness and economic growth.

The Société defines itself as a venture capital agency, i.e. its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société is not subject to federal or provincial income tax.

In the wake of 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 become a limited partnership with mixed public and private funding.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. The main estimates were based on evaluation of investments' fair value. Different circumstances or economic contexts underlying these estimates might change management's decisions. Real results may differ from these estimates.

Currency conversion

Monetary assets and liabilities are converted at the exchange rate the date of the balance sheet. Other assets and liabilities are converted at the original rate. Revenue in foreign currency is converted at the exchange rate in effect when the transaction occurred. Exchange gains or losses are included in the statement of operations.

Revenue reporting

Investment operations are recorded on the date of the operation and the resulting revenue is reported on an accrual basis. Interest income is reported according to the number of days the investment is held during the fiscal year. Gains or losses on the sale of investments are reported when realized, based on the cost.

Investments

The Société is an investment company within the meaning of Accounting Guideline (AcG-18) – Investment company of the Canadian Institute of Chartered Accountants. Investments are evaluated at fair value, which represents the estimated amount on which parties acting freely under fully competitive conditions could agree to exchange instruments. Since many instruments cannot be easily negotiated, given the absence of a market, the fair value is affected significantly by the assumption used. The resulting fair value should not, therefore, be interpreted as the realization value resulting from an immediate settlement of the instruments.

The fair value of investments, other than quoted, made during the current fiscal year is presumed not to have changed during the year, notwithstanding a significant change in the situation. The fair value of the shares quoted is established using closing rate the date of the balance sheet. The fair value of unquoted shares is assessed using appropriate evaluation techniques including, notably, reference to one or more arm's-length transactions or purchase offers, agreements in principle or business plans, analysis of ratios for comparable companies and the actualisation of representative free cash flows. Some shares include capitalized proceeds when this situation is stipulated in an agreement.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**2. ACCOUNTING POLICIES (cont'd)****Capital assets**

Capital assets are recorded at acquisition cost and amortized over their service life on a straight-line basis as follows:

Leasehold improvements	4 years
Office equipment	4 years
Data processing equipment	3 years
Equipment	6 years

The Société regularly examines the book value of its capital assets by comparing it with the unrealized future cash flows these assets generate. Any surplus book value over this value is posted to results for the period in which the depreciation was determined. At March 31, 2007, no loss in value had been posted.

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents. Short-term investments are recorded at fair value.

3. SHORT-TERM INVESTMENTS

	2007	2006
Deposit certificate at 4.35 %, maturing April 2007	\$6 464 100	
Deposit certificate at 5.20 %, maturing April 2007	1 148 954	
Deposit certificate at 4.25 %, maturing May 2007	1 491 660	
Deposit certificate at 4.35 %, maturing May 2007	2 481 675	
Deposit certificate at 3.5 %, issued April 2006		\$496 715
Deposit certificate at 3.7 %, issued April 2006		1 195 884
Deposit certificate at 4.55 %, issued April 2006		1 395 783
Deposit certificate at 3.75 %, issued May 2006		1 987 540
Deposit certificate at 3.85 %, issued June 2006		7 428 675
	<u>\$11 586 389</u>	<u>\$12 504 597</u>

4. ACCOUNTS RECEIVABLE

	2007	2006
Interest receivable on investments including a \$74 266 provision for doubtful debts (2006: \$57 734)	\$99 472	\$248 922
Accrued interest on short-term investments	47 768	33 852
Other, including a \$0 provision for doubtful debts (2006: \$10 348)	18 713	32 477
	<u>\$165 953</u>	<u>\$315 251</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

5. TANGIBLE ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Leasehold improvements	\$55 703	\$8 123	\$47 580	\$8 384
Office equipment	15 716	14 789	927	1 326
Data processing equipment	133 912	125 637	8 275	11 371
Furniture and equipment	137 177	133 351	3 826	7 448
	<u>\$342 508</u>	<u>\$281 900</u>	<u>\$60 608</u>	<u>\$28 529</u>

6. OTHER ASSETS

	2007	2006
Share underwriting	<u>\$350 000</u>	

7. INVESTMENTS

	2007	2006
Common stock		
private corporations	\$7 636 943	\$7 293 192
public corporations	14 355 629	17 200 618
Securities convertible into common stock:		
Capital stock	9 626 991	14 552 692
Debentures and loans (Note 14b)		
maturing from 2008 to 2015	5 783 143	7 469 588
Securities not convertible		
Capital stock	2 093 326	1 743 326
Debentures and loans (Note 14b)		
maturing from 2008 to 2011	487 918	1 088 677
on demand	272 921	272 921
Refundable contributions (Note 14b)		
maturing in 2010 and 2011	1 352 189	2 094 721
no maturity date		250 000
	<u>\$41 609 060</u>	<u>\$51 965 735</u>

8. CAPITAL STOCK

The Act respecting the Société Innovatech Québec et Chaudière-Appalaches is designed to enable the Société to continue operating and be endowed with an authorized partnership fund of \$150 000 000.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

8. CAPITAL STOCK

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

	<u>2007</u>	<u>2006</u>
Authorized:		
1 500 000 common shares with a par value of \$100 each		
Issued and paid:		
1 267 830 common shares	<u>\$126 783 096</u>	<u>\$126 783 096</u>

9. CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

	<u>2007</u>	<u>2006</u>
Change in accounts receivable *	\$155 033	\$(363 278)
Change in prepaid expenses	(11 081)	10 894
Change in accounts payable and accrued liabilities	<u>(83 732)</u>	<u>55 534</u>
	<u>\$60 220</u>	<u>\$(296 850)</u>

* Including revenue from sales receivable in the short term.

10. CASH FLOWS - INVESTMENT ACTIVITIES

	<u>2007</u>	<u>2006</u>
Acquisition of investments	\$4 297 765	\$7 440 522
Share dividends	(154 201)	
Non-monetary transactions	<u>(44 146)</u>	<u>(909 063)</u>
Cash flows - Acquisition of investments	<u>\$4 099 418</u>	<u>\$6 531 459</u>
Recovery of debentures, loans and refundable contributions	\$1 291 995	\$2 053 833
Non-monetary transactions	<u></u>	<u>(211 600)</u>
Cash flows – Recovery of debentures, loans and refundable contributions	<u>\$1 291 995</u>	<u>\$1 842 233</u>
Revenue from sale of shares minus commission	\$960 249	\$16 909 018
Non-monetary transactions	<u>(44 146)</u>	<u>(497 463)</u>
Cash flows—Revenue from sale of shares	<u>\$916 103</u>	<u>\$16 411 555</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**10. INVESTMENT ACTIVITIES (cont'd)**

	2007	2006
Gain on sale of investments	\$229 998	\$9 053 979
Non-monetary transactions		211 600
Cash flows –Gain on sale of investments	<u>\$229 998</u>	<u>\$9 265 579</u>
Loss on sale of investments	\$5 631 655	\$2 216 931
Non-monetary transactions	1 908 075	1 350 701
Cash flows –Loss on sale of investments	<u>\$7 539 730</u>	<u>\$3 567 632</u>
Change in unrealized loss in value	\$7 539 274	\$10 436 501
Non-monetary transactions		(1 333 097)
Cash flows – Change in unrealized loss in value	<u>\$7 539 274</u>	<u>\$9 103 404</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 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, 2007, the Société's commitments related to financial support for initiatives amounted to \$6 382 285 (March 2006: \$5 586 570).

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, 2007. Depending on certain events, these amounts may not be paid out.

13. CONTINGENCY

In June 2006, a lawsuit was instituted against the Société. These proceedings target mainly the payment of damages and interest of a maximum of \$930 000. On the date the financial statements were prepared, the Société was unable to assess the result of this lawsuit and its potential financial impacts, if applicable.

14. FINANCIAL INSTRUMENTS**a) Credit concentration risk**

The credit risk results from the possibility that the party to the operation might not respect its commitments or increase in value. The Société invests in corporations with a promising competitive position in their respective markets and strong growth potential. However, it is exposed to the economic conditions affecting the sectors in which it exercises its activities.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**14. FINANCIAL INSTRUMENTS** (cont'd)**a) Credit concentration risk** (cont'd)

At March 31, the investment concentration breaks down as:

	2007	2006
Life sciences	22%	27%
Advanced applied technologies	36	35
Information technologies	32	30
Other venture capital funds	10	8

The highest concentration for the same investment is 9.7% of the fair value of total investments (10.3% at March 31, 2006).

The financial instruments that could subject the Société to a credit concentration risk comprise primarily cash on hand, short-term investments, payables and investments. Cash and short-term investments are held with top-ranking financial institutions. Consequently, management deems that the credit risk linked to cash and short-term investment is minimal. Payables and investments involve companies which were analyzed in depth at the time of the initial investment. Company growth is analyzed on a regular basis and monitored as necessary. Management does not believe it is exposed to a credit risk that is higher than average for its activity sector.

b) Interest-rate risk

The interest rates on the Société's investments and the risk to which it is exposed with regard to these interest rates are summarized in the following table:

	Interest- free	Fixed rate **	Total
Debenture and convertible loans in common stock maturing from 2008 to 2015		\$5 783 143	\$5 783 143
Debentures and non-convertible loans in common stock maturing from 2008 to 2011 on demand		487 918 272 921	487 918 272 921
Refundable contributions * maturing in 2010 and 2011	\$1 352 189		1 352 189
	<u>\$1 352 189</u>	<u>\$6 543 982</u>	<u>\$7 896 171</u>

* Contributions are refundable in the form of a royalty on sales.

** Interest rates vary between 7% and 15%.

c) Currency risk

The Société has invested certain amounts in foreign currencies, i.e. the US dollar. Consequently, certain assets are exposed to interest rate fluctuations. At March 31, 2007, the net asset in US dollars converted into Canadian dollars represented \$6 739 686 (\$8 591 774 at March 31, 2006). The Société uses no instrument to manage interest-rate fluctuation risks.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech Québec et Chaudière-Appalaches were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal audit and investigations department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements for the fiscal year ended March 31, 2007.

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

Francine Laurent
President and Chief Executive Officer

Martin Auclair, CA
Director, Finance and Administration

Québec, May 18, 2007

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Québec et Chaudière-Appalaches as at March 31, 2007 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA
Director, Financial Certification
Consulting Services
For the Auditor General of Québec

Québec, May 18, 2007

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES
(R.S.Q., c. S-17.5)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31

	<u>2007</u>	<u>2006</u>
REVENUES		
Investment income		\$666 845
Losses from sale of investments		(901 368)
Interest on short-term investments	\$114 632	91 346
Management fees		26 400
	<u>114 632</u>	<u>(116 777)</u>
EXPENSES		
Investment expenses:		
Value loss not realized on investments	1 648 259	185 724
Provision for surety	<u>(339 930)</u>	<u>1 300 000</u>
	<u>1 308 329</u>	<u>1 485 724</u>
Operating expenses:		
Salaries and fringe benefits	18 000	245 268
Professional and contractual services	53 758	100 838
Administrative service fees – Related, jointly-controlled entity	74 269	34 240
Rent		17 818
Advertising and promotion		50
Travelling and business development		30 415
Office expenses	148	10 081
Insurance	11 150	3 556
Communications		5 645
Loss on sale of capital assets		86 900
Amortization of capital assets		5 906
	<u>157 325</u>	<u>540 717</u>
NET LOSS	(1 351 022)	(2 143 218)
CUMULATED DEFICIT, BEGINNING OF YEAR	<u>(24 422 276)</u>	<u>(22 279 058)</u>
CUMULATED DEFICIT, END OF YEAR	<u>\$(25 773 298)</u>	<u>\$(24 422 276)</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**BALANCE SHEET**
as at March 31

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash on hand	\$7 076	\$1
Short-term investments – bank acceptance 4.32% maturing April 11, 2007	2 699 801	2 675 442
Investments (Note 3)	23 866 017	25 514 276
Other assets	<u>20 455</u>	<u>12 175</u>
	<u>\$26 593 349</u>	<u>\$28 201 894</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Account payable to a related, jointly-controlled entity	\$116 647	\$34 240
Provision for a surety for a financial institution	<u>1 000 000</u>	<u>1 339 930</u>
	<u>1 116 647</u>	<u>1 374 170</u>
Shareholder's equity		
Capital stock (Note 4)	51 250 000	51 250 000
Cumulated deficit	<u>(25 773 298)</u>	<u>(24 422 276)</u>
	<u>25 476 702</u>	<u>26 827 724</u>
	<u>\$26 593 349</u>	<u>\$28 201 894</u>

CONTINGENCY (Note 7)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre-B. Lafrenière, President
André Côté, Director

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

STATEMENT OF CASH FLOWS
for the year ended March 31

	2007	2006
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net loss	\$(1 351 022)	\$(2 143 218)
Adjustments for:		
Amortization of capital assets		5 906
Capitalized interest in investments		(284 148)
Value loss not realized on investments	1 648 259	185 724
Provision for surety	(339 930)	
Loss on sale of capital assets		86 900
Loss on sale of investments		901 368
	(42 693)	(1 247 468)
Change in assets and liabilities related to operations:		
Other assets	(8 280)	5 323
Account payable to a related, jointly-controlled entity	82 407	(161 004)
	74 127	(155 681)
	31 434	(1 403 149)
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Revenues from sale of capital assets		17 000
Acquisition of capital assets		(26 667 500)
Recovery of investments		284 970
Revenues from the sale of investments		25 465 310
		(900 220)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31 434	(2 303 369)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2 675 443	4 978 812
CASH AND CASH EQUIVALENTS, END OF YEAR	\$2 706 877	\$2 675 443
CASH AND CASH EQUIVALENTS		
Cash on hand	\$7 076	\$1
Short-term investment	2 699 801	2 675 442
	\$2 706 877	\$2 675 443

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2007

1. CONSTITUTION AND PURPOSE

The Société Innovatech Régions ressources is a legal person established in the public interest incorporated by the legislation governing it, i.e. the Act respecting Société Innovatech Régions ressources (R.S.Q., c. S-17.5), to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act and, thereby, to enhance Québec's competitiveness and economic growth.

The Société defines itself as an investment company, more precisely a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, as such, is not subject to Québec or Canadian income tax.

2. ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Short-term investments

Short-term investments are posted at their fair value.

Investments

Investments, including shares in a limited partnerships and a loan, are posted at their fair value. The fair value of the shares in the limited partnership is based on the company's audited financial statements at December 31 and adjusted to the latter's significant operations during the shift period which, as an investment company, is assessed at fair value. The fair value of the loan is established using market assessment techniques. The significant assumptions used to determine the fair value may include the realization or capitalization rate, discount rate, rate of return and weighting of projected results.

3. INVESTMENTS

	<u>2007</u>	<u>2006</u>
Investment in Desjardins – Innovatech S.E.C. (33.9% of the shares issued at March 31, 2007; 46.1% at March 31, 2006)	<u>\$23 866 017</u>	<u>\$25 514 276</u>

The Société also holds an investment in the form of a loan, whose fair value is zero.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007**4. CAPITAL STOCK**

Under the Act respecting Société Innovatech Régions ressources (R.S.Q., c. S-17.5), the Société has an authorized partnership fund of \$100 000 000.

	<u>2007</u>	<u>2006</u>
Authorized:		
1 000 000 common shares with a par value of \$100 each		
Issued and paid:		
512 500 common shares	<u>\$51 250 000</u>	<u>\$51 250 000</u>

The shares of the Société's partnership fund belong to the State and are assigned to the Minister of Finance.

5. FINANCIAL INSTRUMENTS

Given that they mature in the short term, the fair value of cash and the accounts payable to a related, jointly-controlled entity is considered equal to their book value.

The fair value of the provision for a surety for a financial institution is considered equal to its book value, given that it matures in the short term.

6. RELATED PARTY TRANSACTIONS

In addition to the related party operations disclosed in the financial statements and posted at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not 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.

7. CONTINGENCY

Under the Gouvernement du Québec's Order-in-Council 684-2005, on July 4, 2005, the Société acquired 26 500 000 shares of Desjardins – Innovatech S.E.C., at a price equivalent to the fair value of the assets transferred in exchange, i.e. \$26 500 000. These assets corresponded to close to the Société's entire portfolio, i.e. \$24 965 310, and \$1 534 690 in cash. The shares represent a limited partners' interest of 46.9%. The second limited partner, Capital régional et coopératif Desjardins, invested \$30 000 000 for shares representing a limited partners' interest of 53.1%. The general partner is Desjardins Capital de risque inc., which contributed \$564. After adjusting the fair value of an investment for \$800 000, the Société's dividend rate in Desjardins – Innovatech S.E.C. was reduced to 46.1% during the fiscal year ended March 31, 2006.

On November 2, 2006, Capital régional et coopératif Desjardins invested an additional \$20 000 000 in cash for 20 115 867 shares. After this new investment, the shares held by Capital régional et coopératif Desjardins and Société Innovatech Régions ressources represented respective limited partners' interests of 66.1% and 33.9%.

Revenue from the sale of investments could increase to \$1 300 000 on the discharge of a surety assumed by the Société and issued on June 21, 2005. If applicable, the adjustment will be carried out by adjusting the number of shares the Société holds in the limited partnership.

8. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Régions ressources as at March 31, 2007 and the statements of operations and cumulated deficit and cash flows for the period then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, January 22, 2008

SOCIÉTÉ NATIONALE DE L'AMIANTE
(R.S.Q., c. S-18.2)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Interest	12	16
Reimbursement of capital tax	<u> </u>	<u>2</u>
	<u>12</u>	<u>18</u>
EXPENSES		
Administrative expenses	277	274
Professional services	230	110
Commitment for fringe benefits (Note 7)	<u>645</u>	<u> </u>
	<u>1 152</u>	<u>384</u>
NET LOSS	(1 140)	(366)
DEFICIT, BEGINNING OF YEAR	<u>(157 917)</u>	<u>(157 551)</u>
DEFICIT, END OF YEAR	<u>(159 057)</u>	<u>(157 917)</u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash on hand	124	50
Short-term investments (Note 4)	<u> </u>	<u>469</u>
	<u>124</u>	<u>519</u>
 LIABILITIES		
Current liabilities		
Accounts payable	167	67
Liability for fringe benefits (Note 7)	<u>645</u>	<u> </u>
	<u>812</u>	<u>67</u>
 SHAREHOLDERS' EQUITY (DEFICIT)		
Capital stock (Note 6)	158 369	158 369
Deficit	<u>(159 057)</u>	<u>(157 917)</u>
	<u>(688)</u>	<u>452</u>
	<u>124</u>	<u>519</u>
 CONTINGENCIES (Note 8)		

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, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net loss	(1 140)	(366)
Net change in Working Capital Fund non-cash items	<u>745</u>	<u>(18)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(395)	(384)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>519</u>	<u>903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>124</u>	<u>519</u>

Cash and cash equivalents include cash on hand and short-term investments.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 2007

(in thousands of dollars)

1. DESCRIPTION

The Société nationale de l'amiante (SNA) is a government enterprise wholly owned by the Gouvernement du Québec. It was established by the Act respecting the Société nationale de l'amiante (R.S.Q., c. S-18.2) and holds investments in an inoperative enterprise.

2. ONGOING OPERATIONS

These financial statements were prepared in accordance with accounting principles that are valid in a context of ongoing operations. However, numerous unfavourable events and circumstances raise significant doubts as to the validity of these accounting policies.

Given that the Société has posted an operating loss for the past few years, it would be impossible for it to meet its financial obligations should the Gouvernement du Québec decide to withdraw its financial support.

On December 14, 2005, based on the recommendation of the working group that examined government agencies, the National Assembly adopted Bill 120 authorizing the Gouvernement du Québec to proceed, by Order-in-Council on the date and according to the terms and conditions it determines, with the dissolution of the Société or its ongoing operations as a public corporation governed by the provisions of Part IA of the Companies Act. No Order-in-Council had been tabled to this effect in the National Assembly on the date these financial statements were prepared. Henceforth, the Société will be financed by subsidies negotiated from time to time, as required.

Should the agreement regarding ongoing operations not comply with these financial statements, it might be necessary to adjust the book value of assets and liabilities, the net loss declared and the classification of balance sheet items.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been drawn up in accordance with Canadian generally accepted accounting principles and reflect the following main accounting policies:

Consolidation perimeter

The consolidated financial statements group together the accounts of the Société nationale de l'amiante and of its subsidiary Mines SNA (held 100%).

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.

Income tax

Since all of the Société's shares are held by the Gouvernement du Québec, the Société nationale de l'amiante is exempt from income tax, as is its wholly-owned subsidiary.

Cash and cash equivalents

It is the Société's policy to present cash, short-term investments and easily convertible financial instruments maturing within three months or less under cash and cash equivalents.

Use of estimates

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

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

4. SHORT-TERM INVESTMENTS

	<u>2007</u>	<u>2006</u>
Commercial paper, bearing interest at rate of 3.00%, matured during the fiscal year		199
Commercial paper, bearing interest at rate of 2.60%, matured during the fiscal year		70
Commercial paper, bearing interest at rate of 2.60% matured during the fiscal year		50
Commercial paper, bearing interest at rate of 3.15%, matured during the fiscal year		<u>150</u>
		<u>469</u>

5. INVESTMENT

	<u>2007</u>	<u>2006</u>
Preferred Category C shares in Les Technologies Fibrox Ltée	500	500
Provision for permanent value loss	<u>500</u>	<u>500</u>
	<u>500</u>	<u>500</u>

6. CAPITAL STOCK

Authorized
250 000 common shares with a par value of \$1 000 each

	<u>2007</u>	<u>2006</u>
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.

7. COMMITMENT FOR FRINGE BENEFITS

To ensure equity, the Société had to adjust some of its employees' fringe benefits for supplementary retirement allowances. The amount of this expense was established on the basis of an actuarial valuation conducted by external consultants.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2007
(in thousands of dollars)

8. 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 Société 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 Société 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.

This decision was appealed by minority shareholders before the Court of Québec, which rejected the appeal and, in a ruling of May 9, 2005, upheld the Commission's decision. Since the Court of Québec decision was not appealed by the prescribed deadline, the file is now closed.

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.

In May 2006, Société attorneys made preliminary objections to oppose the minority shareholders' request. A decision handed down on October 10, 2006 granted these preliminary objections and refused the minority shareholders' request because too much time had lapsed since the lawsuit had been served. The minority shareholders appealed this decision.

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 ruling is handed down in the other proceedings before the Québec and Ontario securities commissions (*supra*).

9. FINANCIAL INSTRUMENTS

Fair value

The fair value of cash, short-term investments and accounts payable corresponds approximately to their book value given that they mature in the short term.

The fair value of the investment in preferred shares corresponds to its book value, i.e. zero.

SOCIÉTÉ NATIONALE DE L'AMIANTE

AUDITORS' REPORT

To the Minister responsible for the
Société nationale de l'amiante

We have audited the balance sheets of the Société nationale de l'amiante as at March 31, 2007 and the consolidated statement of income and deficit and statement of cash flows for the year then ended. These financial statements are the responsibility of the Société's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche S.E.N.C.R.L.
Chartered Accountants

April 12, 2007 (January 9, 2008 for Note 2)

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
(R.S.Q., c. S-18.2.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
REVENUES		
Management fees (Note 3)	415	292
Financial revenue		
Gouvernement du Québec	132 119	148 332
Municipalities	14 130	17 838
Other	<u>3 133</u>	<u>845</u>
	<u>149 797</u>	<u>167 307</u>
 EXPENSES		
Salaries and social benefits (Note 4)	236	210
Transportation and communications	11	18
Information system	15	44
Professional, administrative and other services	36	44
Repairs and maintenance	2	1
Rental	3	7
Supplies	3	3
Dispute settlement	144	
Financial expenses (Note 5)	<u>149 347</u>	<u>166 980</u>
	<u>149 797</u>	<u>167 307</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

BALANCE SHEET
as at March 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash	767	748
Accounts receivable		
Gouvernement du Québec	46 664	50 507
Municipalities	4 075	5 447
Other	62	13
Gouvernement du Québec receivables (Note 6)	81 759	127 880
Amounts receivable from the municipalities (Note 6)	21 403	22 096
Prepaid expenses	19	7
Short-term portion of Amortization Fund (Note 7)		12 420
	<u>154 749</u>	<u>219 118</u>
Long-term Gouvernement du Québec receivables (Note 6)	2 243 535	2 324 481
Long-term amounts receivable from the municipalities (Note 6)	174 126	203 210
Completed, uninvoiced work	245	583
Long-term investment – amortization fund (Note 7)	58 902	57 125
Other assets	<u>1 216</u>	<u>1 499</u>
	<u>2 632 773</u>	<u>2 806 016</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	51 484	56 594
Instalments on long-term debt (Note 8)	<u>102 538</u>	<u>162 396</u>
	154 022	218 990
Accounts payable and accrued liabilities on completed work		865
Long-term debt (Note 8)	2 478 328	2 585 350
Deferred revenue	<u>423</u>	<u>811</u>
	<u>2 632 773</u>	<u>2 806 016</u>

CONTINGENCIES (Note 9)

The notes are an integral part of these financial statements.

Michel Gagnon
Director of the Société

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
OPERATING ACTIVITIES		
Cash inflow – management fees	27	97
Cash inflow – financial revenue	154 630	173 910
Cash outflow – interest paid	(152 628)	(173 941)
Cash outflow – other financial expenses	(1 122)	(1 841)
Cash outflow – administration expenses	(874)	(330)
Cash flows related to operating activities	33	(2 105)
INVESTMENT ACTIVITIES		
Amount charged to long-term receivables and uninvoiced completed work	(677)	(191)
Receipts on long-term receivables	157 860	139 292
Encashment – Trust Fund		950
Encashment – Amortization Fund	28 893	10 116
Investment acquisition – Amortization Fund	(18 250)	(79 661)
Cash flows related to investing activities	167 826	70 506
FINANCING ACTIVITIES		
Repayment of accounts payable and accrued liabilities on completed work	(927)	(1 615)
Long-term debt	299 097	263 379
Repayment of long-term debt	(466 010)	(329 477)
Cash flows related to financing activities	(167 840)	(67 713)
INCREASE IN CASH	19	688
CASH, BEGINNING OF YEAR	748	60
CASH, END OF YEAR	767	748

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2007

(in thousands of dollars)

1. IDENTIFICATION AND FINANCING

The Société québécoise d'assainissement des eaux, a legal person under the Civil Code, was created under a special act (R.S.Q., chapter S-18.2.1) and is a non-profit government corporation.

The Société invoices the Gouvernement du Québec on behalf of the municipalities and invoices the municipalities for studies and the water purification, water and sewage work it performs and financing of work carried out by the municipalities.

Under an amendments to the Société's incorporating statute, which came into effect in March 1, 2007 (2006, c. 60), the Société's business is administered by the person designated Québec Minister of Municipal Affairs and the Regions.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Management fees

Management fees reflect a percentage of the cost of water purification, sewage, water and other work.

- Billing

Management fees are invoiced for execution of the Société's mandate, which covers the work completion period and the period of debt management and financing related to this work.

Management fee revenues for water purification work are invoiced:

- In relation to expenses incurred for studies;
- According to a uniform allocation over the estimated completion period (term basis) for the work.

For other work, including water and sewage, management fee revenues are invoiced according to a percentage of the cost of work completed.

- Deferred revenue

The Société is unable to accurately establish management fees earned yearly over the full duration of its mandate.

Consequently, the annual surplus of management fees over net operating expenses is posted to deferred revenue or, in cases involving the opposite, deferred revenue reported equal the annual surplus of net operating expenses over management fees invoiced and are posted to revenues for the fiscal year.

Long-term receivables

Long-term receivables, to be collected from the Gouvernement du Québec on behalf of municipalities and from municipalities, include expenses charged to water purification, water and sewage work, and the financing of watercourse bank development work and other work carried out by municipalities, net of reimbursements received.

Long-term investment – Amortization Fund

Investments in the Amortization Fund are recorded at cost.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Other assets

The long-term debt premium and issuing costs are deferred. These items are amortized according to the rate in effect over the term of the loan.

3. MANAGEMENT FEES

	2007	2006
Management fees invoiced	27	97
Transfer to deferred revenue	388	195
	<u>415</u>	<u>292</u>

4. SALARIES AND SOCIAL BENEFITS

Wages paid to two employees reporting to the Ministère des Affaires municipales et des Régions (MAMR) in the context of services provided free of charge to the Société, i.e. all services other than Amortization Fund management, are not included in this item. However, since December 15, 2005, the cost of services supplied by MAMR employees to manage the Société's Amortization Fund corresponds to 0.075% of the outstanding average of Amortization Fund assets. These fees are subtracted from rates of return obtained on Amortization Fund assets.

5. FINANCIAL EXPENSES

	2007	2006
Interest on bonds and notes payable	141 026	163 676
Amortization of Gouvernement du Québec long-term debt (premium) discount	317	(1 455)
Cost of debt guaranteed by the government	250	1 122
Interest on bank loans	4 621	2 792
Interest on Amortization Fund credited to municipalities	3 133	845
	<u>149 347</u>	<u>166 980</u>

The interest paid for the fiscal year for loans contracted with the Gouvernement du Québec's Financing Fund, a jointly-controlled entity, amounts to \$131 297 067 (2006: \$140 133 111). As at March 31, 2007, the accrued interest for these loans included under "Accounts payable and accrued liabilities" amounted to \$50 398 728 (2006: \$49 746 112).

6. LONG-TERM RECEIVABLES

	2007	2006
Gouvernement du Québec	2 325 294	2 452 361
Current portion	<u>(81 759)</u>	<u>(127 880)</u>
	<u>2 243 535</u>	<u>2 324 481</u>
Municipalities	195 529	225 306
Current portion	<u>(21 403)</u>	<u>(22 096)</u>
	<u>174 126</u>	<u>203 210</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

6. LONG-TERM RECEIVABLES (cont'd)

The interest rate on long-term receivables is the same as the Société pays on its long-term debt. Receivables mature as follows:

Water purification studies	
Municipalities	5 years
Gouvernement du Québec	25 years
Water and sewage studies and work	10 years
Water purification work	
Municipalities	20 years
Gouvernement du Québec	25 years

The municipalities repay their accounts receivable every interest payment period for the related obligations.

The Government repays the unamortized portion of its accounts receivable, when the obligation matures.

7. AMORTIZATION FUND

The Société created an Amortization Fund bearing interest for repayment of the municipalities' share of the long-term debt from the periodic remittance of capital by the municipalities. Amortization Fund assets are deposited with the Ministère des Finances and generated a net average rate of return of 4.9716% for the year ended March 31, 2007.

A net guaranteed rate of return of 4.504% on the outstanding average of the Amortization Fund's investment was accepted by the Société for the period April 1, 2007 to March 31, 2008.

Amortization Fund equity at March 31, 2007 breaks down as:

	<u>2007</u>	<u>2007</u>
ASSETS		
Cash	1	38
Accrued interest receivable	1 513	1 154
Investment – Bonds	<u>57 388</u>	<u>68 397</u>
	<u>58 902</u>	<u>69 589</u>
LIABILITIES		
Management fees payable		(23)
Accrued interest payable		<u>(21)</u>
		<u>(44)</u>
FUND EQUITY	58 902	69 545
Short-term portion of Amortization Fund		<u>(12 420)</u>
Long-term investment – Amortization Fund	<u>58 902</u>	<u>57 125</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2007

(in thousands of dollars)

8. LONG-TERM DEBTBonds and notes payable ^a

<u>Maturing</u>	<u>2007</u>	<u>2006</u>
2007		412 970
2008	213 289	209 725
2009	120 677	116 955
2010	323 612	308 543
2011	594 193	591 389
2012	116 903	
1 to 5 years	1 368 674	1 639 582
6 to 10 years	1 188 528	944 749
11 to 20 years	584	89 465
	<u>2 557 786</u>	<u>2 673 796</u>
Bank loan ^b	<u>23 080</u>	<u>73 950</u>
	<u>2 580 866</u>	<u>2 747 746</u>
Current portion	<u>(102 538)</u>	<u>(162 396)</u>
	<u>2 478 328</u>	<u>2 585 350</u>

a Principal and interest on bonds and notes are guaranteed by the Gouvernement du Québec. At maturity, most of these debts will be refinanced on a long-term basis. An amount of \$2 507 785 966 (2006: \$2 449 349 704) was contracted from the Gouvernement du Québec's Financing Fund, a jointly-controlled entity.

b These bank loans, which are not guaranteed by the Gouvernement du Québec, will be financed on a long-term basis on completion of the financing terms. On average, the related interests were 155 basis points lower than the Canadian charter bank prime rate. An amount of \$23 080 000 (2006: \$73 950 000) was contracted from the Gouvernement du Québec's Financing Fund, a jointly-controlled entity.

The interest rates on bonds and notes presented below include the interest rate on debts, discounts and all cost related to issues.

<u>Maturity</u>	<u>2007</u> <u>Weighted</u> <u>average</u>	<u>2006</u> <u>Weighted</u> <u>average</u>
	(in percentage)	
1 to 5 years	5.63	5.94
6 to 10 years	5.17	5.30
11 to 20 years	<u>4.89</u>	<u>4.77</u>
Weighted average	<u>5.41</u>	<u>5.67</u>

9. CONTINGENCIES

At the date of the financial statements, claims and lawsuits from various suppliers totalled \$735 000. The Société contests these lawsuits resulting from work execution contracts. Neither a possible outcome nor a possible settlement amount, if applicable, can be foreseen at this time. However, a provision for claims payable has been estimated by the Société's management and is presented in "Accounts payable and accrued liabilities" on completed work. Any amount the Société has to disburse to settle these disputes will be invoiced to the Gouvernement du Québec on behalf of the municipalities and to the municipalities.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2007

(in thousands of dollars)

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 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.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS**Long-term investments – Amortization Fund**

At March 31, 2007, the fair value of the Amortization Fund investment was \$58 493 553, given the discounting of cash flows at the market rate for instruments with similar maturity dates and interest rates. The investment whose book value was \$58 901 528 was not devaluated since it is guaranteed by the Gouvernement du Québec.

Long-term debt

At March 31, 2007, the fair value of the long-term debt was \$2 716 389 826 (2006: \$2 835 313 881) and the book value \$2 557 785 966 (2006: \$2 673 796 174). The fair value was established by discounting cash flows at the market rate for instruments with similar maturity and interest rates, given that this includes the fair value for derivative financial instruments.

The temporary loans are financial instruments whose fair value approximates their carrying value of \$23 080 000 (2006: \$73 950 000) at March 31, 2007 due to their short-term maturity.

Long-term receivables

The fair value of long-term receivables the long-term investment – Amortization Fund is approximately the same as the value of the long-term debt of \$2 716 000 000 (2006: \$2 835 000 000), as conditions of repayment are equivalent to those of the long-term debt.

Other current assets and liabilities

The fair value of cash, accounts receivable, accounts payables and accrued liabilities equals their book value given that they mature in the short term.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'assainissement des eaux were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

Management fulfils its financial reporting responsibilities.

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

Michel Gagnon
Administrator

Québec, May 11, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Société québécoise d'assainissement des eaux as at March 31, 2007 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2007 and the results of its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 11, 2007

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
(R.S.Q., c. S-22.01)

STATEMENT OF OPERATIONS AND EQUITY
for the year ended March 31, 2007

	2007	2006
REVENUES		
Green tax on tires – net (Appendix 1)	\$22 650 566	\$21 771 291
Revenue on consignment of throw-away containers – net (Appendix 2)	9 606 138	9 993 898
Gouvernement du Québec transfers (Appendix 3)	1 634 145	1 775 294
Investment income	1 813 598	1 868 946
Compensation for municipal selective collection services	1 627 471	
Revenue from industrial organizations (Appendix 4)	490 208	493 130
Revenue from glass recovery assistance program (Note 12)	264 257	707 826
Other	231 405	214 915
	<u>38 317 788</u>	<u>36 825 300</u>
PROGRAM EXPENSES		
Used-tired program (Appendix 5)	22 957 148	21 371 987
Contributions to the waste management plan development assistance program	948 334	1 318 334
Contributions to the financial assistance program for social economy businesses	1 246 434	1 156 399
Compensation for municipal selective collection services (Appendix 6)	728 996	47 642
Other non-refundable contributions (Appendix 7)	779 417	697 159
Contributions to the glass recovery assistance program	240 236	644 160
Contribution to the facilities improvement program (Note 10)	3 398 857	2 605 518
Recovery on financial interests		(99 685)
	<u>30 299 422</u>	<u>27 741 514</u>
MANAGEMENT EXPENSES		
Salaries and fringe benefits	3 453 251	3 294 139
Operations (Appendix 8)	1 285 562	1 397 759
Communications, awareness and education	968 193	1 199 884
	<u>5 707 006</u>	<u>5 891 782</u>
	<u>36 006 428</u>	<u>33 633 296</u>
EXCESS REVENUES OVER EXPENSES	2 311 360	3 192 004
EQUITY, BEGINNING OF YEAR	<u>35 090 407</u>	<u>31 898 403</u>
EQUITY, END OF YEAR	<u>\$37 401 767</u>	<u>\$35 090 407</u>

The notes and additional information are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

BALANCE SHEET
as at March 31, 2007

	2007	2006
ASSETS		
Current assets		
Cash on hand	\$559 688	\$880 336
Short-term investments (Note 3)	3 474 617	6 398 991
Credits to be received (Note 4)	12 039 922	11 103 071
Receivable from approved financing organizations (Note 5)	54 078 000	
Prepaid expenses	76 417	79 691
	<u>70 228 644</u>	<u>18 462 089</u>
Long-term investments (Note 6)	40 131 138	39 604 954
Capital assets (Note 7)	<u>445 167</u>	<u>458 791</u>
	<u><u>\$110 804 949</u></u>	<u><u>\$58 525 834</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$6 628 480	\$7 135 337
Amounts owing to municipal organizations (Note 5)	50 760 000	
Deferred Gouvernement du Québec transfers (Note 9)	1 457 993	3 092 137
Deferred Compensation for municipal selective collection services revenue	1 768 529	
Deposit entry on fines		672 312
Provision for contribution to the recovery facilities improvement program (Note 10)	1 192 842	1 739 365
Amounts refundable (Note 11)	3 632 568	2 997 499
	<u>65 440 412</u>	<u>15 636 650</u>
Allowance for refund of deposits	5 946 507	5 851 780
Allowance for payment of recovery incentives	<u>2 016 263</u>	<u>1 946 997</u>
	<u>73 403 182</u>	<u>23 435 427</u>
EQUITY	<u>37 401 767</u>	<u>35 090 407</u>
	<u><u>\$110 804 949</u></u>	<u><u>\$58 525 834</u></u>
COMMITMENTS (Note 16)		
CONTINGENCIES (Note 17)		

The notes and additional information are an integral part of these financial statements.

On behalf of the Board of Directors,
José P. Dorais, President of the Board
Christian L. Van Houtte, Director

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Excess revenues over expenses	\$2 311 360	\$3 192 004
Items not affecting cash and cash equivalents:		
Recovery on financial interest and loan guarantees		(99 685)
Loss on sale of investments	90 679	37 658
(Gain) Loss on sale of capital assets	(690)	22 994
Amortization of capital assets	174 646	185 550
Amortization of the discount and premium on investments – net	154 708	293 154
	<u>2 730 703</u>	<u>3 631 675</u>
Changes in assets and liabilities related to operations		
Accounts receivable	(936 851)	(3 137 700)
Receivable from approved financing organizations	(54 078 000)	
Prepaid expenses	3 274	939
Accounts payable and accrued liabilities	(506 857)	5 316 719
Amounts owing to municipal organizations	50 760 000	
Deferred Gouvernement du Québec transfers	(1 634 144)	(112 255)
Deferred Compensation for municipal selective collection services revenue	1 768 529	
Temporary deposits on penalties	(672 312)	(2 182 732)
Provision for contribution to the recovery facilities improvement program	(546 523)	1 282 150
Amounts refundable	635 069	(1 635 023)
Allowance for refund of deposits	94 727	(36 250)
Allowance for payment of recovery incentives	69 266	(81 652)
	<u>(5 043 822)</u>	<u>(585 804)</u>
Cash flows from operating activities	<u>(2 313 119)</u>	<u>3 045 871</u>
INVESTMENT ACTIVITIES		
Amount paid as final loan guarantee settlement		(299 714)
Amount recovered on loan recovery		101 399
Revenue from sale of investments	72 007 468	29 431 936
Acquisition of investments	(72 779 039)	(33 960 782)
Acquisition of capital assets	(161 022)	(206 594)
Revenue from sale of capital assets	690	1 250
Cash flows for investment activities	<u>(931 903)</u>	<u>(4 932 505)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(3 245 022)</u>	<u>(1 886 634)</u>
BEGINNING OF YEAR	<u>7 279 327</u>	<u>9 165 961</u>
END OF YEAR	<u>\$4 034 305</u>	<u>\$7 279 327</u>
The breakdown of cash and cash equivalents is:		
Cash on hand	\$559 688	\$880 336
Short-term investments	3 474 617	6 398 991
	<u>\$4 034 305</u>	<u>\$7 279 327</u>

The notes and additional information are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2007

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). 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.

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 administer agreements and the following programs:

- the integrated management program for used tires and the program for emptying used tire storage sites in Québec for the fiscal years 2001-2008;
- agreements relating to the consignment, recovery and recycling of non-refillable beer and soft drink containers entered into pursuant to the Act respecting the sale and distribution of beer and soft drinks in non-returnable containers (R.S.Q., c. V-5.001);
- the agreement relating to the recovery of paint containers under the Regulation respecting the recovery and reclamation of discarded paint containers and paints. A non-profit organization designated by paint manufacturers must make a biannual contribution to the Société for information, public awareness, education, coordination and results monitoring purposes;
- the agreement related to the recovery and reclamation of used oils under the Regulation respecting the recovery and reclamation of used oils, oil or fluid containers and used filters. A non-profit organization designated by the companies in this industry must make a biannual contribution to the Société to cover the costs resulting from coordination, agreement monitoring, assistance in achieving objectives, participation in information, education and public awareness, development of markets and recovery and reclamation technologies, results analysis and auditing;
- 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;
- 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;
- the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials. Under this Regulation, companies must compensate municipalities for up to 50% of the total net cost of services supplied by the municipalities for recovery and reuse of the categories of materials targeted, i.e. "containers and packaging", "printed matter" and "print media".

2. ACCOUNTING POLICIES

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

Revenue reporting

Revenues are posted when earned and when measurement and recovery of the consideration are reasonably certain. Investment income is reported based on the number of days the investment is held during the fiscal year. Gains and losses on the sale of investments are established using the average cost method. The costs of transactions associated with the acquisition or sale of investments are included in the cost of investments acquired or treated as a reduction in proceeds from the sale of investments.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

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

Capital assets are recorded at cost and amortized over their estimated service life in accordance with the straight-line method.

	<u>Duration</u>
Capital assets	
Furniture and equipment	7 years
Data processing equipment	5 years
Leasehold improvements	Term of lease

Intangible assets

Software	3 years
Data processing development	5 years

Long-term investments

Bonds are recorded at amortized cost. Mutual fund units are recorded at cost. Discounts and bond premiums are amortized in accordance with the straight-line method over the duration remaining for each security. The amortization of discounts and premiums is posted to investment income. Investment management fees are deducted from investment income. Any permanent decrease in value is deducted from the book value of investments and the loss is posted to the fiscal year's results.

Deferred Gouvernement du Québec transfers

Transfers for specific programs are deferred and posted to results as income in keeping with the expenses related to them.

Allowance for 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 68.66% as at March 31, 2007 (2006: 71.40%), and at 79.52% for 10¢ containers (2006: 82.96%) and at 80.72% for 20¢ containers (2006: 77.93%).

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.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

2. ACCOUNTING POLICIES (cont'd)
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 of containers sold, reimbursements of consignment amounts and recovery incentives is calculated based on the declarations provided by parties to the beer agreement.

Under the agreement relating to consignment, recovery and recycling of throw-away soft drink containers, collection and reimbursement of consignment amounts and payment of recovery incentives are carried out by a non-profit organization designated by Québec soft drink bottlers. As a result, the consignment amounts collected and reimbursed as the incentives paid are not reported in the Société's financial statements.

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 become known.

Revenues and expenses relating to the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials

The Société is authorized to withhold 6% of any amount it receives, as a trustee, under the Regulation and which is intended as compensation to the municipalities. This withholding seeks to compensate the Société for management fees and other expenses linked to the compensation established by the Act and the Regulation. Revenues are posted as work progresses, i.e. services or other Regulation-related expenses are incurred.

Pension plans

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

Cash flows

It is the Commission's policy to present bank balances and investments that can easily be converted in the short term to a known amount of cash, whose value is not likely to change significantly under cash and cash equivalents.

3. SHORT-TERM INVESTMENTS

Short-term investments, recorded at cost, represent discount notes and bonds maturing within a year. Fixed interest rates vary from 4.40% to 5.30%.

4. ACCOUNTS RECEIVABLE

	2007	2006
Consignment amounts	\$2 325 167	\$2 061 894
Fines – bottlers and brewers	5 305 890	5 489 565
Green tax on tires	3 092 719	2 765 636
Accrued interest	492 098	174 049
Other	824 048	611 927
	<u>\$12 039 922</u>	<u>\$11 103 071</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

5. RECEIVABLE FROM CERTIFIED FINANCING ORGANIZATIONS

The Regulation respecting compensation for municipal services provided to recover and reclaim residual materials came into effect on March 1, 2005. The rate chart used to establish the amounts payable by companies was adopted in February 2007 and authorizes certified financing organizations to collect contributions. The Société posts \$54 078 000 to be paid by certified financing organizations to assets and compensations payable to municipal bodies, i.e. \$50 760 000, to liabilities.

Under the Regulation, the Société issued certified financing organization status to two entities: Eco Entreprises Québec represents containers, packaging and printed matter categories and Recycle Médias represents print media. Compensation payable to the municipalities by Eco Entreprises Québec is monetary while that of Recycle Médias takes the form of goods and services.

6. LONG-TERM INVESTMENTS

	2007	2006
Bonds		
- 3.55% to 10.35%, maturing on various dates until March 2016	\$40 131 138	\$27 257 907
Bond mutual fund units		12 347 047
	<u>\$40 131 138</u>	<u>\$39 604 954</u>

Bonds mature as follows:

	2007	2006
2008		\$15 600 451
2009	\$13 148 701	6 452 040
2010	10 291 921	2 030 657
2011	8 155 241	3 174 759
2012	4 148 006	
2013 and thereafter	4 387 269	
	<u>\$40 131 138</u>	<u>\$27 257 907</u>

The management fees for the fiscal year's investments total \$104 776 (2006: \$107 540).

7. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Furniture and equipment	\$505 782	\$349 320	\$156 462	\$189 351
Data processing equipment	428 412	315 432	112 980	80 577
Leasehold improvements	69 338	49 803	19 535	17 670
Sub-total	1 003 532	714 555	288 977	287 598
Intangible assets				
Software	200 601	155 354	45 247	12 595
Data processing development	335 931	224 988	110 943	158 598
	536 532	380 342	156 190	171 193
	\$1 540 064	\$1 094 897	\$445 167	\$458 791

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	\$1 737 082	\$1 655 301
Non-refundable contributions – used-tire program	2 941 914	3 331 078
Consignment amounts and recovery incentives	1 081 250	1 190 337
Salaries and fringe benefits	431 268	439 865
Deposit on contract payable	436 966	518 756
	<u>\$6 628 480</u>	<u>\$7 135 337</u>

9. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS

	2007	2006
Government assistance program for waste management plans	\$280 000	\$1 228 334
Financial assistance program for social economy businesses working in the context of waste management plans	1 177 993	1 863 803
	<u>\$1 457 993</u>	<u>\$3 092 137</u>

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, 2007, the amounts used totalled \$8 960 000, \$948 334 in the present fiscal year (2006: \$1 318 334).

Finally, under an Order-in-Council dated March 30, 2005, the Société received a Gouvernement du Québec subsidy of \$2 273 675 for implementing the financial assistance program for social economy businesses working in the context of waste management plans. The Société also committed to investing an additional \$3 400 000 for the same 3-year period. During the fiscal year, \$1 246 434 (2006: \$1 156 399) was used, \$685 811 (2006: \$409 872) from the government subsidy. Since the beginning, \$2 552 833 has been used, including \$1 095 683 of the government subsidy.

10. RECOVERY INFRASTRUCTURE IMPROVEMENT PROGRAM

Under the agreement relating to consignment, recovery and recycling throw-away soft drink containers that expired on December 31, 2006, the Société was committed to investing in the Recovery Infrastructure Improvement Program administered and implemented by Boissons Gazeuses Environnement. The Société's investments were limited to the lesser of 75% of fines issued during the year for unachieved recovery objectives duly committed by Boissons Gazeuses Environnement in the program this same year or in the 120 days following year-end.

In fiscal 2006-2007, the Société committed to paying \$3 398 857 (2006: \$2 605 518) under the Recovery Infrastructure Improvement Program. The provision for this contribution totalled \$1 192 842 (2006: \$1 739 365) at March 31, 2007.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

11. AMOUNTS REFUNDABLE

	2007	2006
Amounts refundable to Boissons gazeuses environnement	\$2 660 718	\$1 688 695
Amounts refundable to brewers	971 850	1 308 804
	<u>\$3 632 568</u>	<u>\$2 997 499</u>

Under the agreement relating to consignment, recovery and recycling throw-away soft drink containers, Boissons Gazeuses Environnement, the organizations representing contributors must repay certain amounts paid by the Société or be reimbursed by the Société for certain amounts it disbursed.

Under the agreement relating to consignment, recovery and recycling throw-away beer containers, contributors agree to reimburse the Société for the annual deficit (calendar year) resulting from the consignment system for their containers (consignment amounts collected and reimbursed, recovery incentives and management fees). Where annual results are surpluses, 67% of the surplus is remitted to contributors.

The balance is used for container recovery and recycling information, public awareness and education purposes and for developing markets and technologies for residual waste.

12. GLASS RECOVERY ASSISTANCE PROGRAM

This program, which ended on June 30, 2006, was administered in partnership with the Société des alcools du Québec (SAQ). Under agreements with the SAQ, all financial assistance paid for glass transport and sorting was reimbursed by the SAQ along with 50% of the assistance allocated to conditioners for technological developments designed to develop glass. Management fees were paid to the Société.

13. FUTURE FRINGE BENEFITS**Pension Plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) and Upper Management Retirement Plan (RRAS). These are inter-enterprise defined-benefit plan that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement total \$148 705 (2006: \$144 995). Its liability towards these Government plans is restricted to its employer contributions.

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 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.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2007

15. FINANCIAL INSTRUMENTS**FAIR VALUE****Short-term assets and liabilities**

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

Long-term investments

At March 31, 2007, the fair value of investments of \$40 131 138 (2006: \$39 604 954) was \$40 262 644, (2006: \$39 693 210), given the capitalization of cash flows at the market rate for securities with similar maturity dates and interest rates.

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.

16. COMMITMENTS

The Société is committed under long-term leases for administrative offices. The Montréal lease ended on October 31, 2007 and includes a five-renewal option. The Québec City lease ended on March 31, 2012.

Rental costs for the fiscal year ending March 31, 2007 for these administrative offices were \$351 229. Minimum future payments are:

2008	\$249 954
2009	114 513
2010	114 513
2011	114 513
2012	114 513
	\$708 006

17. CONTINGENCIES

The collective agreement of Société employees expired on December 31, 2005. RECYC-QUÉBEC and the Syndicat de la Fonction publique du Québec are currently negotiating a new collective agreement. On the date these financial statements were prepared, the Société was unable to assess the financial impact of this new agreement, given that the work related to it had not yet been completed. Consequently, no amount was posted in the financial statements.

18. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

ADDITIONAL INFORMATION
for the year ended March 31, 2007

■ **APPENDIX 1**

GREEN TAX ON TIRES – NET

	2007	2006
Green tax on tires	\$22 968 722	\$22 083 108
Administrative costs on tax collection	(318 156)	(311 817)
	<u>\$22 650 566</u>	<u>\$21 771 291</u>

■ **APPENDIX 2**

REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET

	2007	2006
Soft drinks and others		
Consignment amounts on containers sold	\$541 272	\$533 729
Reimbursement of consignment amounts	148 181	(237 297)
Recovery incentive premiums	3 072	36 915
	<u>692 525</u>	<u>333 347</u>
Royalty – bottlers	684 001	717 266
Penalties – bottlers	5 305 890	7 549 702
Other revenue	3 000	3 746
	<u>6 685 416</u>	<u>8 604 061</u>
Net revenue for the year		

Beer

Consignment amounts on containers sold	25 331 216	22 913 336
Reimbursement of consignments amounts	(19 959 149)	(17 927 401)
Recovery incentive premiums	(2 767 449)	(2 552 773)
	<u>2 604 618</u>	<u>2 433 162</u>
Amount repayable to brewers	(2 024 695)	(1 970 607)
	<u>579 923</u>	<u>462 555</u>
Royalty – brewers	179 184	153 858
Fines acquired – brewers	1 236 858	122 595
Other revenue	651 083	414 173
Recovered management fees	273 674	236 656
	<u>2 920 722</u>	<u>1 389 837</u>
Net revenue for the year		
	<u>\$9 606 138</u>	<u>\$9 993 898</u>

■ **APPENDIX 3**

GOUVERNEMENT DU QUÉBEC TRANSFERS

	2007	2006
Government assistance program for the development of residual waste management plans	\$948 334	\$1 318 334
Education, public awareness, research, development and composting program		47 088
Financial assistance program for social economy businesses	685 811	409 872
	<u>\$1 634 145</u>	<u>\$1 775 294</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2007

■ APPENDIX 4
REVENUE FROM INDUSTRIAL ORGANIZATIONS

	2007	2006
Contributions for paint	\$174 262	\$163 881
Contributions for used oil	315 946	329 249
	<u>\$490 208</u>	<u>\$493 130</u>

■ APPENDIX 5
USED-TIRE PROGRAM

	2007	2006
Site emptying	\$8 731 017	\$7 709 464
Transportation and stockpiling	9 454 557	9 346 649
Re-employment assistance	29 709	44 866
Recycling assistance – primary processing	4 343 258	3 763 196
Technological development assistance		52 500
Assistance for energy use	167 310	283 144
Discount for prepayment	231 297	172 168
	<u>\$22 957 148</u>	<u>\$21 371 987</u>

■ APPENDIX 6
COMPENSATION FOR MUNICIPAL SELECTIVE COLLECTION SERVICES

	2007	2006
Pilot projects and experiments	\$442 746	\$15 000
Financial assistance program for innovation and technological development	95 805	
Communications, courier services and telecommunications	91 800	
Professional fees	60 467	25 234
Training and upgrading	741	3 400
Information highway and technological development assistance	35 342	3 180
Travelling	308	
Meetings and conferences	1 787	828
	<u>\$728 996</u>	<u>\$47 642</u>

■ APPENDIX 7
OTHER NON-REFUNDABLE CONTRIBUTIONS

	2007	2006
Information, awareness and education	\$372 271	\$429 548
Pilot projects and experiments	407 146	237 078
Other projects		30 533
	<u>\$779 417</u>	<u>\$697 159</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2007

■ **APPENDIX 8**

OPERATING EXPENSES

	2007	2006
Professional fees	\$265 430	\$403 582
Information highway	41 797	29 698
Courier services and telecommunications	71 040	75 579
Rent, taxes and insurance	399 638	377 624
Travelling	135 815	125 557
Equipment rental	19 026	17 661
Maintenance and repairs	32 868	28 226
Supplies and miscellaneous expenses	36 832	33 146
Representation, meetings and conferences	65 652	44 075
Training and upgrading	25 054	13 664
Subscriptions, documentation and assessments	17 948	20 463
Amortization of capital assets	174 646	185 550
(Gain) Loss on sale of capital assets	(690)	22 994
Relocation	506	19 940
	<u>\$1 285 562</u>	<u>\$1 397 759</u>

MANAGEMENT'S REPORT

The financial statements of the Société québécoise de récupération et de recyclage (Recyc-Québec) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

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

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

Robert Lemieux
President General Director

Yves Boisvert, CGA
Interim Director, Finance and Administration

Québec, July 20, 2007

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, 2007 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of the operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 20, 2007

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)
(R.S.Q., c. I-20)

STATEMENT OF OPERATIONS
for the year ended March 31, 2007

	2007	2006
REVENUES FROM PUBLICATIONS AND SERVICES	\$12 269 974	\$12 469 276
COST OF PUBLICATIONS AND SERVICES (Note 3)	8 064 840	7 328 658
GROSS MARGIN	4 205 134	5 140 618
OVERHEAD EXPENSES (Note 4)	4 080 270	4 054 623
NET REVENUES	<u>\$124 864</u>	<u>\$1 085 995</u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2007

	2007	2006
CUMULATED SURPLUS, BEGINNING OF YEAR	\$1 000 000	\$1 000 000
CANCELLATION OF NET PROFIT PAYABLE TO THE GOUVERNEMENT DU QUÉBEC (Note 5)	1 000 000	
ADJUSTED CUMULATED SURPLUS, BEGINNING OF YEAR	2 000 000	1 000 000
NET PROFIT	124 864	1 085 995
	2 124 864	2 085 995
NET PROFIT PAYABLE TO THE GOUVERNEMENT DU QUÉBEC (Note 5)	(124 864)	(1 085 995)
CUMULATED SURPLUS, END OF YEAR	<u>\$2 000 000</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, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash	\$2 415 165	\$1 513 528
Accounts receivable	1 574 550	1 576 675
Inventory	129 237	477 266
Prepaid expenses	<u>280 353</u>	<u>239 287</u>
	4 399 305	3 806 756
Capital assets (Note 6)	<u>2 246 203</u>	<u>1 498 222</u>
	<u><u>\$6 645 508</u></u>	<u><u>\$5 304 978</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$1 896 752	\$1 641 091
Deferred revenue	<u>1 036 016</u>	<u>983 072</u>
	2 932 768	2 624 163
Net revenues to be remitted to the Gouvernement du Québec	210 859	1 085 995
Provision for sick leave (Note 10)	502 004	494 192
Deferred lease inducements	<u>999 877</u>	<u>100 628</u>
	4 645 508	4 304 978
CUMULATED SURPLUS (Note 5)	<u>2 000 000</u>	<u>1 000 000</u>
	<u><u>\$6 645 508</u></u>	<u><u>\$5 304 978</u></u>

COMMITMENTS (Note 11)

On behalf of the Board of Directors,
Guy Mercier
Lucie Lauzière

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**NOTES TO FINANCIAL STATEMENTS**

March 31, 2007

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) to promote research, process and develop legal information in order to improve its quality and accessibility to the general public.

Under the Income Tax Act (R.S.C.1985, c. 1, 5th Supplement) and the Taxation Act (R.S.Q., c. I-3), the Société is not subject to income tax.

2. ACCOUNTING POLICIES

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

The statement of cash flows is not shown as it would not provide any additional useful information on the École's cash flows during the year.

Beginning in the fiscal year ended March 31, 2006, the Société applied, in advance, the recommendations of Section 3855 of the Canadian Institute of Chartered Accountants Handbook "Financial Instruments – Recognition and Measurement". No financial asset or liability was irrevocably designated by the Société as being held for transaction purposes. Moreover, no adjustment in the book value of financial instruments was necessary. The adoption of these recommendations did not, therefore, require changes to the recording and presentation of financial instruments.

Revenue reporting

Revenue from service delivery and sales was recorded when the following conditions had been met:

- There was convincing evidence of the existence of an agreement;
- Delivery occurred and services were rendered;
- The selling price is determined or can be determined;
- Recovery is reasonably certain.

Cash

Cash includes cash, cash funds and investments maturing within three months and posted at cost, which is close to the market value.

Inventory

The inventory of publications is valued at cost or net realizable value, whichever is less. The cost of each publication includes direct design and publishing costs (labour, materials and printing) and related indirect costs. The contributions of certain agencies are deducted from this amount.

Capital assets

Capital assets are recorded at cost and amortized in accordance with the straight-line method and the following rates:

Leasehold improvements	Duration of lease *
Office furniture	5 years
Data processing equipment	3 years
Data processing system	7 years **

* Leasehold improvements are amortized over the duration of the lease, until December 31, 2021.

** The data processing system is amortized over 7 years as of the date it became operational, i.e. January 1, 2004 to December 31, 2010. Acquisitions related to this data processing system are amortized over the period remaining.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQIJ)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES
Lease incentives

Lease incentives granted the Société by the lessor, under a long-term lease for administrative office rental, are posted and amortized over the duration of the lease.

Deferred revenue

Receipts from subscriptions and other publications are deferred and then transferred to operations on shipment.

Future fringe benefits

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

3. COST OF PUBLICATIONS AND SERVICES

	2007	2006
Salaries, fringe benefits and corporate charges	\$5 689 548	\$5 151 529
Amortization of capital assets	508 503	513 260
Formatting and printing	392 620	384 444
Equipment rental and maintenance	345 035	300 313
Advertising	253 526	296 477
Professional fees	243 428	277 757
Communications and shipping	222 752	265 975
E-data warehouse	208 150	239 000
Royalties	82 950	109 877
Travelling and representation	19 813	29 503
Rent, taxes and insurance	16 617	25 339
Inventory variation	348 029	(31 763)
Contributions of certain organizations	(266 131)	(233 053)
	<u>\$8 064 840</u>	<u>\$7 328 658</u>

4. OVERHEAD EXPENSES

	2007	2006
Salaries, fringe benefits and corporate charges	\$1 808 237	\$2 280 552
Rent, municipal taxes and insurance	942 977	815 956
Professional fees	159 088	179 591
Advertising	291 939	179 026
Subsidy to an agency	300 000	175 000
Travelling and representation	88 790	97 433
Staff training	71 015	89 455
Documentation and supplies	97 787	79 795
Amortization of capital assets	123 074	44 828
Communications and shipping	45 212	38 949
Equipment rental and maintenance	104 729	25 154
Other	47 422	48 884
	<u>\$4 080 270</u>	<u>\$4 054 623</u>

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**4. OVERHEAD EXPENSES (cont'd)**

The fiscal year's amortization of the deferred lease inducements was \$64 981 (2006: \$27 502) recorded as a decrease in rental costs.

5. CUMULATED SURPLUS

The net revenues for the Société's fiscal year must be paid into the Consolidated Revenue Fund of the Gouvernement du Québec, after constituting a working fund. This amount, determined by the Government, was \$1 000 000 but was increased to \$2 000 000 retroactively to March 31, 2006 by an Order-in-Council issued in March 2007. The effect of this change was reported retroactively with relation to the cumulated surplus at the beginning of year, without reprocessing the previous year's financial statements.

6. CAPITAL ASSETS

	2007		
	Cost	Accumulated surplus	Net
Leasehold improvements	\$634 082	\$33 271	\$600 811
Office furniture	729 576	390 983	338 593
Data processing equipment	3 009 703	2 616 883	392 820
Data processing system	1 494 760	580 781	913 979
	<u>\$5 868 121</u>	<u>\$3 621 918</u>	<u>\$2 246 203</u>
	2006		
	Cost	Accumulated surplus	Net
Leasehold improvements	\$33 762		\$33 762
Office furniture	358 540	\$294 071	64 469
Data processing equipment	2 753 912	2 340 174	413 738
Data processing system	1 342 349	356 096	986 253
	<u>\$4 488 563</u>	<u>\$2 990 341</u>	<u>\$1 498 222</u>

Capital asset acquisitions for the year totalled \$1 375 430 (2006: \$403 185).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Salaries, fringe benefits and corporate charges	\$1 240 136	\$976 298
Other payables and accrued expenses	<u>656 616</u>	<u>664 793</u>
	<u>\$1 896 752</u>	<u>\$1 641 091</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.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. RELATED PARTY TRANSACTIONS

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

The Société also has a service exchange agreement with the Ministère de la Justice du Québec. The value of these services cannot be reasonably estimated.

10. FUTURE FRINGE BENEFITS
Pension plans

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (MPRP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$308 433 (2006: \$313 971). Its liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave

	2007	2006
Balance, beginning of year	\$494 192	\$436 289
Annual expenses	220 680	236 775
Benefits paid	(212 868)	(178 872)
Balance, end of year	<u>\$502 004</u>	<u>\$494 192</u>

11. COMMITMENTS

The Société is committed to long-term leases for office space, warehousing and equipment, expiring on various dates until December 2021. Minimum lease payments for the coming fiscal years are:

2008	\$1 069 852
2009	1 017 682
2010	757 343
2011	772 423
2012	817 659
2013 and thereafter	<u>8 273 843</u>
	<u>\$12 708 802</u>

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'information juridique (SOQUIJ) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

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

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

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

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

Claude Paul-Hus
Director General

Montréal, May 25, 2007

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société québécoise d'information juridique (SOQUIJ) as at March 31, 2007 and the statements of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 25, 2007

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)
(R.S.Q., c. S-12.01)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$54 985 496	\$53 985 300
Repayment of long-term debt	254 415	723 220
Transfer of deferred subsidies (Note 13)	1 570 915	1 379 000
Activities involving the production and distribution of educational material		1 304 040
Other	1 915 078	148 000
	<u>58 725 904</u>	<u>57 539 560</u>
Sales, services and other revenue	<u>15 562 694</u>	<u>15 859 834</u>
	<u>74 288 598</u>	<u>73 399 394</u>
EXPENSES (Note 4)		
Programming and new media	40 089 261	41 816 413
Legal affairs, human resources and technical services	11 407 141	12 397 498
Administration	9 313 874	11 092 769
Grid, broadcasting and promotion	6 233 527	5 965 248
Regions, partnerships, institutional affairs and sales	5 332 605	5 271 106
Amortization of capital assets	3 440 493	3 512 330
Financial expenses – net (Note 5)	32 194	41 756
Share in the results of the satellite corporation	13 399	(16 355)
	<u>75 862 494</u>	<u>80 080 765</u>
EXCESS OF EXPENSES OVER REVENUES BEFORE THE FOLLOWING ITEM	(1 573 896)	(6 681 371)
Restructuring costs (Note 3)	<u>6 565 771</u>	
EXCESS OF EXPENSES OVER REVENUES	(8 139 667)	(6 681 371)
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>2 138 102</u>	<u>8 819 473</u>
CUMULATED (DEFICIT) SURPLUS, END OF YEAR	<u>\$(6 001 565)</u>	<u>\$2 138 102</u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**BALANCE SHEET**
as at March 31, 2007

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Accounts receivable	\$6 060 229	\$6 174 919
Gouvernement du Québec subsidies receivable (Note 6)	4 078 111	3 269 392
Programs produced and in production	396 265	494 968
Broadcasting and distribution rights and participation in outside productions	17 486 913	17 407 358
Production and technical supplies	437 894	438 709
Prepaid expenses	<u>260 611</u>	<u>239 229</u>
	28 720 023	28 024 575
Long-term investment (Note 7)	2 584 283	2 597 682
Gouvernement du Québec subsidies receivable (Note 6)	17 682 439	17 258 427
Capital assets (Note 8)	<u>15 554 014</u>	<u>15 586 925</u>
	<u><u>\$64 540 759</u></u>	<u><u>\$63 467 609</u></u>
LIABILITIES		
Current liabilities		
Outstanding cheques less cash on hand	\$1 100 572	\$1 333 773
Short-term borrowings (Note 9)	13 500 498	9 035 652
Accounts payable and accrued liabilities (Note 10)	9 881 406	7 418 952
Broadcasting and distribution rights and participation in outside productions – payable	13 945 756	11 772 262
Instalments on long-term debt due within one year (Note 11)	1 818 450	1 818 449
Deferred incomes (Note 13)	<u>4 028 537</u>	<u>2 832 181</u>
	44 275 219	34 211 269
Long-term debt (Note 11)	15 490 596	17 309 046
Restructuring costs payable (Note 3)	793 300	
Gouvernement du Québec advance (Note 12)	2 750 000	2 750 000
Deferred revenue (Note 13)	<u>7 233 209</u>	<u>7 059 192</u>
	70 542 324	61 329 507
CUMULATED (DEFICIT) SURPLUS	<u>(6 001 565)</u>	<u>2 138 102</u>
	<u><u>\$64 540 759</u></u>	<u><u>\$63 467 609</u></u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Robert Forget
Jean Lamarre

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Excess of expenses over revenues	\$(8 139 667)	\$(6 681 371)
Items not affecting liquid assets:		
Amortization of capital assets	3 440 493	3 512 330
Transfer of deferred revenue	(1 570 915)	(1 379 000)
Loss on sale of capital assets		24 082
Share in the results of the satellite corporation	13 399	(16 355)
	<u>(6 256 690)</u>	<u>(4 540 314)</u>
Change in non-cash items related to operations (Note 14)	<u>7 675 088</u>	<u>8 935 765</u>
Cash flows from operating activities	<u>1 418 398</u>	<u>4 395 451</u>
FINANCING ACTIVITIES		
Gouvernement du Québec subsidies receivable	(424 012)	(528 351)
Increase in Financing Fund borrowing	5 982 846	2 187 968
Repayment of Financing Fund borrowing		(5 506 278)
Increase in long-term debt		6 054 827
Long-term debt repayment	<u>(1 818 449)</u>	<u>(1 781 524)</u>
Cash flows from financing activities	<u>3 740 385</u>	<u>426 642</u>
INVESTMENT ACTIVITIES		
Cash flows for investment activities:		
Acquisition of capital assets	<u>(3 407 582)</u>	<u>(1 900 990)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1 751 201	2 921 103
DEFICIENCY IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(9 753 773)</u>	<u>(12 674 876)</u>
DEFICIENCY IN CASH AND CASH EQUIVALENTS END OF YEAR (Note 14)	<u><u>\$(8 002 572)</u></u>	<u><u>\$(9 753 773)</u></u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, Télé-Québec was established by the Act respecting the Société de télévision du Québec (R.S.Q., c. S-12.01) to operate an educational and cultural television broadcasting service and service for producing and disseminating audiovisual, multimedia and television broadcasts.

2. ACCOUNTING POLICIES

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

Revenue recording*Subsidies*

Subsidies are posted as revenue in the fiscal year in which the corresponding expenditure occurs. Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the funding or performed the work related to these subsidies.

Sales, services and other revenue

Sales, services and other revenue are posted when there is convincing evidence of an agreement that the services have been rendered, that the price has been, or can be, determined and that encashment is reasonably certain.

Subsidy recording

Subsidies are posted to revenue in the fiscal year during which the corresponding expenditures are incurred.

Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the financing or carried out the work related to these subsidies.

Programs produced and in production

Programs produced and in production are posted at average cost, which includes the direct cost of supplies and services in addition to the share of labour costs and overhead for each program. The average cost for a given program is charged to operations when the program is initially broadcast or if it is declared unusable.

Broadcasting and distribution rights and participation in outside productions

Broadcasting and distribution rights for audiovisual material are generally acquired for five years. They are capitalized then posted to operations based on the number of broadcasts and the following, except where they are posted based on the considerations attached to these rights:

70% for the first broadcast;
30% for the second broadcast;

Rights on films deemed unusable are written off once the decision has been made.

Télé-Québec's participation in outside productions and the attendant rights are deferred and then posted in full to operations when the program is first broadcast, except where they are posted based on the considerations attached to these rights.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

2. ACCOUNTING POLICIES (cont'd)**Production and technical supplies**

The inventory of production and technical supplies is posted at cost or net realizable value, whichever is lower. Cost is determined in accordance with 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.

Capital assets

Capital 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.

Capital assets are amortized in accordance with the straight-line method and the following rates:

	<u>Rate</u>
Antenna array	5%
Improvements to antenna array	10%
Technical equipment	10%
Furniture and fixtures	10%
Data processing equipment	20%
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

It is Télé-Québec's policy to present bank balances including bank overdrafts and loans from financial institutions contracted to meet short-term cash flow commitments under cash and cash equivalents.

Pension plans

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

3. RESTRUCTURING COSTS

In fiscal 2007, Télé-Québec posted expenses of \$6 565 771 to severance pay and the related costs, following the Board of Directors' adoption of a plan to reduce staff numbers. Disbursements are expected to total \$7 393 695, with \$3 071 356 disbursed in the fiscal year ending March 31, 2007. Télé-Québec posted a \$3 494 415 provision for severance pay. The portion representing disbursements to be paid during the fiscal year ending March 31, 2008, i.e. \$2 701 115, was posted to "Accounts payable and accrued liabilities".

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

4. EXPENSES BY CATEGORY

	2007	2006
Salaries and fringe benefits	\$21 015 913	\$23 796 273
Transportation and communications	4 442 797	4 256 372
Professional, administrative and other services	4 744 295	4 639 391
Rent	6 093 645	6 278 808
Materials and supplies	1 675 020	1 912 538
Broadcasting and distribution rights	32 860 683	32 924 004
Amortization of capital assets	3 440 493	3 512 330
Direct expenses – independent productions	1 373 551	1 442 146
Direct expenses – service delivery	47 494	22 109
Financial expenses	32 194	41 756
Accounts receivable written off	24 307	4 035
Share in the results of the satellite corporation	13 399	(16 355)
Loss on sale of capital assets		24 082
	<u>75 763 791</u>	<u>78 837 489</u>
Programs produced and in production, participation in outside productions – change for the year	<u>98 703</u>	<u>1 243 276</u>
	<u><u>\$75 862 494</u></u>	<u><u>\$80 080 765</u></u>

5. FINANCIAL EXPENSES - NET

	2007	2006
Interest on long-term debt	\$1 159 717	\$1 116 173
Interest on loans from financial institutions	32 194	41 756
Interest on borrowings from Financing Fund	145 712	77 929
Gouvernement du Québec subsidy – interest on short-term debt	(145 712)	(77 929)
Gouvernement du Québec subsidy – interest on long-term debt	<u>(1 159 717)</u>	<u>(1 116 173)</u>
	<u><u>\$32 194</u></u>	<u><u>\$41 756</u></u>

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 capital assets and their maintenance, minus capital repayments already made on long-term debt and to be made in the coming fiscal year.

7. LONG-TERM INVESTMENTS

	2007	2006
Investment in a satellite corporation	\$2 574 441	\$2 587 840
Portfolio investment	<u>9 842</u>	<u>9 842</u>
	<u><u>\$2 584 283</u></u>	<u><u>\$2 597 682</u></u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

7. LONG-TERM INVESTMENTS (cont'd)
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. Cumulated losses since its acquisition totalled \$175 559 at March 31, 2007 (\$162 160 at March 31, 2006).

Portfolio investment

Télé-Québec holds 4.44% of shares in a corporation whose main activity is signal management.

8. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated depreciation	Net	Net
Antenna array, including improvements	\$29 871 839	\$25 983 089	\$3 888 750	\$3 684 415
Technical equipment	22 571 596	15 964 481	6 607 115	6 818 826
Furniture and fixtures	1 535 672	1 194 201	341 471	403 007
Data processing equipment	7 224 193	5 880 035	1 344 158	1 416 562
Automotive equipment	778 917	628 115	150 802	229 380
Leasehold improvements	2 836 537	1 765 504	1 071 033	1 094 273
	<u>64 818 754</u>	<u>51 415 425</u>	<u>13 403 329</u>	<u>13 646 463</u>
Grouping of installations:				
Technical equipment	4 620 644	3 971 502	649 142	957 090
Furniture and fixtures	653 332	566 458	86 874	130 429
Leasehold improvements	4 272 508	3 704 400	568 108	852 943
	<u>9 546 484</u>	<u>8 242 360</u>	<u>1 304 124</u>	<u>1 940 462</u>
Computer system-related projects being completed ^a	<u>846 561</u>		<u>846 561</u>	
	<u>\$75 211 799</u>	<u>\$59 657 785</u>	<u>\$15 554 014</u>	<u>\$15 586 925</u>

a Once computer system-related projects have been completed, the capital assets will be amortized in accordance with their service life.

9. SHORT-TERM BORROWINGS

	2007	2006
Loans from financial institutions	\$6 902 000	\$8 420 000
Loans from Financing Fund	<u>6 598 498</u>	<u>615 652</u>
	<u>\$13 500 498</u>	<u>\$9 035 652</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

9. SHORT-TERM BORROWINGS (cont'd)**Loans from financial institutions**

Télé-Québec has credit with a financial institution that is renewed annually on September 30. At March 31, 2007, the maximum amount Télé-Québec could borrow was \$16 000 000. Sums borrowed bear interest at the prime rate when the credit margin is used and at the 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. The interest rate was 6.00% at March 31, 2007 (4.00% at March 31, 2006).

Financing Fund borrowings

Télé-Québec borrowed the amounts needed to acquire and maintain capital assets and carry out the modernization plan from the Gouvernement du Québec's Financing Fund. At March 31, 2007, the maximum borrowings authorized by the Gouvernement du Québec for these purposes totalled \$14 867 000 for capital assets and \$10 000 000 for the modernization plan. The amounts borrowed bear interest at the average one—month bankers' acceptance rate, plus 0.3% in lieu of issuing and management fees. The interest rate was 4.64% at March 31, 2007 (4.17% at March 31, 2006).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	\$3 503 838	\$4 248 661
Various accounts payable	976 370	6 000
Restructuring costs payable	2 701 115	
Salaries and fringe benefits payable	2 700 083	3 164 291
	<u>\$9 881 406</u>	<u>\$7 418 952</u>

11. LONG-TERM DEBT

	2007	2006
Bond, series "1", 11.25%, maturing May 25, 2008	\$5 000 000	\$5 000 000
Borrowings on note from the Gouvernement du Québec's Financing Fund:		
3.828% repayable in annual instalments of \$556 985 until May 10, 2010	2 227 942	2 784 927
4.798% repayable in annual instalments of \$503 525 until February 27, 2014	3 524 673	4 028 197
5.795%, repayable in annual instalments of \$254 415 until December 1, 2010	1 017 660	1 272 075
4.2739%, repayable in annual instalments of \$201 409 until December 1, 2014 and an instalment of \$1 208 459 on December 1, 2015	2 819 738	3 021 148
4.2739%, repayable in annual instalments of \$302 114 until December 1, 2015	2 719 033	3 021 148
	<u>17 309 046</u>	<u>19 127 495</u>
Instalments due within one year	1 818 450	1 818 449
	<u>\$15 490 596</u>	<u>\$17 309 046</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

11. LONG-TERM DEBT (cont'd)

Principal payments on the long-term debt over the next five fiscal years are:

2008	\$1 818 450
2009	6 818 450
2010	1 818 450
2011	1 818 450
2012	1 007 050

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.

13. DEFERRED REVENUE

	2007	2006
Gouvernement du Québec subsidies		
Subsidies for capital assets for long-term debt repayment		
Opening balance	\$8 986 192	\$8 314 800
Deferred revenue for the fiscal year	1 988 046	2 050 392
Transfer to revenue for the fiscal year	(1 570 915)	(1 379 000)
Closing balance	9 403 323	8 986 192
Specific projects	1 639 132	493 300
	11 042 455	9 479 492
Other revenue from outside productions	159 303	354 080
Rent collected in advance	59 988	57 801
	11 261 746	9 891 373
Less: Current portion		
Gouvernement du Québec subsidies	3 809 246	2 420 300
Other incomes from outside productions	159 303	354 080
Rent collected in advance	59 988	57 801
	4 028 537	2 832 181
	<u>\$7 233 209</u>	<u>\$7 059 192</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

14. CASH FLOWS

	<u>2007</u>	<u>2006</u>
Change in non-cash items related to operations		
Change in accounts receivable	\$114 690	\$(1 160 350)
Change in accounts receivable from the Gouvernement du Québec	(808 719)	(1 844 133)
Change in broadcasts produced and being produced	98 703	1 243 276
Increase in TV broadcasting and distribution rights and participation in outside productions	(79 555)	9 143 892
Change in technical and production supplies	815	(7 097)
Change in prepaid expenses	(21 382)	65 150
Change in accounts payable and accrued liabilities	2 462 454	(1 465 609)
Change in TV broadcasting and distribution rights and participation in outside productions payable	2 173 494	1 003 311
Change in deferred revenue	2 941 288	1 957 325
Change in restructuring costs payable	793 300	
	<u>\$7 675 088</u>	<u>\$8 935 765</u>

The shortfall of cash and cash equivalents shown in the cash flow statement includes the following amounts recorded in the balance sheet:

	<u>2007</u>	<u>2006</u>
Outstanding cheques minus cash	\$(1 100 572)	\$(1 333 773)
Borrowings from financial institutions	(6 902 000)	(8 420 000)
	<u>\$(8 002 572)</u>	<u>\$(9 753 773)</u>

The interest paid during the fiscal year totalled \$1 392 808 (2006: \$1 139 873).

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, 2007 amount to \$5 430 830 (2006: \$5 558 065).

Minimum future payments for the coming fiscal years are:

2008	\$5 666 234
2009	5 172 698
2010	5 006 273
2011	4 985 895
2012	4 701 399
2013 and thereafter	33 812 141
	<u>\$59 344 640</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

16. PENSION PLANS

Télé-Québec staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

Télé-Québec's contributions charged to the year-end statement totalled \$900 550 (2006: \$985 471). Its liability towards these Government plans is restricted to its employer contributions.

17. FINANCIAL INSTRUMENTS

Long-term debt

At March 31, 2007, the fair value of the long-term debt of \$17 309 046 (2006: \$19 127 495) was \$18 126 239 (2006: \$20 260 966) 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 their book value, given that they are renewed in the short term.

Other assets and liabilities

The fair value of cash, accounts receivable, accounts payable and accrued liabilities equals their book value, given that they mature in the short term.

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

The fair value of Gouvernement du Québec subsidies receivable of \$21 760 549 cannot be estimated given the absence of a market for this type of financial instrument.

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 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.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

19. SERVICE EXCHANGES

Télé-Québec exchanged services over the fiscal year ended March 31, 2007 for approximately \$407 925 (2006: \$546 700). 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.

20. COMPARATIVE FIGURES

Certain 2006 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT'S REPORT

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

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

Télé-Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

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

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

Michèle Fortin
President and Chief Executive Officer

Michèle Parent
General Manager, Administration and Finance

Montréal, May 25, 2007

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of Télé-Québec as at March 31, 2007 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Télé-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of Télé-Québec as at March 31, 2007 and the results of its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

For the Auditor General of Québec
France Alain, CA
Director, Financial Certification Consulting Services

Québec, May 25, 2007

TRIBUNAL ADMINISTRATIF DU QUÉBEC
(R.S.Q., c. J-3)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS (DEFICIT)
for the year ended March 31, 2007

	2007	2006	2005
REVENUES			
Contribution from the Ministère de la Justice	\$9 463 862	\$10 315 379	\$10 481 460
Other contributions (Note 3)	17 200 615	18 275 541	18 525 215
Rate-setting	145 965	174 741	216 146
Interest on bank deposits and short-term investments	410 897	242 999	135 975
Other	192 450	374 662	25 548
	<u>27 413 789</u>	<u>29 383 322</u>	<u>29 384 344</u>
EXPENSES			
Salaries and fringe benefits	20 215 978	19 768 768	19 870 260
Rent	3 244 432	3 216 724	3 447 993
Transportation and communications	1 419 077	1 292 389	1 181 548
Professional and administrative services	1 630 866	1 591 689	1 530 958
Maintenance and repairs	342 531	282 874	248 854
Materials and supplies	277 820	291 887	260 802
Amortization of capital assets	530 304	542 197	574 857
Amortization of intangible assets	396 428	385 177	453 055
Interest on long-term debt	194 395	227 723	224 954
Other			7 175
	<u>28 251 831</u>	<u>27 599 428</u>	<u>27 800 456</u>
Excess of revenues over expenses (expenses over revenues)			
before contributions for transition allocations	(838 042)	1 783 894	1 583 888
Contributions for transition allocations (Note 8c)		<u>5 255 700</u>	
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	<u>(838 042)</u>	<u>7 039 594</u>	<u>1 583 888</u>
CUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>2 980 256</u>	<u>(4 059 338)</u>	<u>(5 643 226)</u>
CUMULATED SURPLUS (DEFICIT), END OF YEAR	<u>\$2 142 214</u>	<u>\$2 980 256</u>	<u>\$(4 059 338)</u>

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

BALANCE SHEET
as at March 31, 2007

	2007	2006	2005
ASSETS			
Current assets			
Cash on hand (Note 12)	\$7 660 483	\$8 887 392	\$6 392 587
Accounts receivable and accrued interest	571 764	384 699	27 812
Prepaid expenses	126 917	138 993	124 682
Contributions for transition allocations receivable maturing within one year (Note 8c)	2 471 728	404 136	
	<u>10 830 892</u>	<u>9 815 220</u>	<u>6 545 081</u>
Contributions for transition allocations receivable (Note 8c)	2 306 365	4 435 444	
Fixed assets (Note 4)	2 950 240	3 229 477	3 462 067
Intangible assets (Note 5)	1 841 734	1 358 225	1 360 964
	<u>\$17 929 231</u>	<u>\$18 838 366</u>	<u>\$11 368 112</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$2 992 634	\$3 187 506	\$2 937 941
Instalments on long-term debt (Note 7)	247 913	231 735	216 615
Instalments on provision for transition allocations (Note 8b)	2 471 728	404 136	242 721
Instalments on provision for sick leave (Note 8d)	430 000	430 000	430 000
	<u>6 142 275</u>	<u>4 253 377</u>	<u>3 827 277</u>
Long-term debt (Note 7)	2 491 402	2 739 315	2 971 050
Provision for transition allocations (Note 8b)	3 460 618	5 248 509	5 541 797
Provision for sick leave (Note 8d)	1 872 739	2 355 849	2 257 247
Deferred contributions	1 819 983	1 261 060	830 079
	<u>15 787 017</u>	<u>15 858 110</u>	<u>15 427 450</u>
CUMULATED SURPLUS (DEFICIT)	2 142 214	2 980 256	(4 059 338)
	<u>\$17 929 231</u>	<u>\$18 838 366</u>	<u>\$11 368 112</u>

COMMITMENTS (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Tribunal,
Jacques Forgues, President
Bernard Chartier, Director of Administration and the Fonds du Tribunal

TRIBUNAL ADMINISTRATIF DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2007

	2007	2006	2005
OPERATING ACTIVITIES			
Excess of revenues over expenses (expenses over revenues)	\$(838 042)	\$7 039 594	\$1 583 888
Items not affecting cash:			
Amortization of capital assets	530 304	542 197	574 857
Amortization of intangible assets	396 428	387 977	453 055
Amortization of deferred contributions	(353 377)	(219 019)	(50 921)
Gain on sale of capital assets	(264 687)	(2 440)	2 560 879
Change in non-cash items related to operations (Note 9)	(514 293)	(5 031 712)	15 434
Cash flows from (for) operating activities	(778 980)	2 716 597	2 576 313
INVESTMENT ACTIVITIES			
Acquisition of capital assets	(361 330)	(300 784)	(152 204)
Acquisition of intangible assets	(767 164)	(356 833)	(541 508)
Revenue from sale of capital assets		2 440	
Cash flows used for investment activities	(1 128 494)	(655 177)	(693 712)
FINANCING ACTIVITIES			
Long-term debt repayment	(231 735)	(216 615)	(202 484)
Increase in deferred contributions	912 300	650 000	881 000
Cash flows from financing activities	680 565	433 385	678 516
INCREASE (DECREASE) IN CASH ON HAND	(1 226 909)	2 494 805	2 561 117
CASH ON HAND, BEGINNING OF YEAR	8 887 392	6 392 587	3 831 470
CASH ON HAND, END OF YEAR	<u>\$7 660 483</u>	<u>\$8 887 392</u>	<u>\$6 392 587</u>
Additional information			
Interest paid	\$195 703	\$210 823	\$224 954
Capital assets unpaid at end of year	11 066	121 329	112 506
Intangible assets unpaid at end of year	171 407	58 634	30 229

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2007

1. CONSTITUTION AND PURPOSE

The Tribunal administratif du Québec (“Tribunal”) is a Government agency established under the Act respecting administrative justice (R.S.Q., C. J-3) mandated, in those cases provided for in the Act, to rule on recourses against an administrative authority or a decentralized authority. Under the Income Tax Act (Canada) and the Taxation Act (Québec), the Tribunal is not subject to income tax.

2. ACCOUNTING POLICIES

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

Capital assets

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

Office furniture and equipment	20.00%
Office automation and computer equipment	33.33%
Leasehold improvements	
– major developments	6.67%
– other	10.00%

Intangible assets

Intangible assets, comprising computer and software development, are recorded at cost and amortized based on the probable length of their use in accordance with the straight-line method and the following rates:

System development costs	20.00%
Software	33.33%

The systems being developed will be amortized when the projects are completed and operational.

Amortization of long-term assets

In the case of circumstances or major events that could indicate a loss in value, the Tribunal reassesses the book value of long-term assets. There is a loss in value when the book value exceeds the unrealized future cash flows that this asset will generate. Any loss in value representing the net book value over the fair value is posted to the fiscal year’s operations.

Contributions

Contributions for Tribunal’s current operations are posted to revenues in the fiscal year in which they are payable.

Contributions for fixed assets and intangible assets are deferred and amortized at the same rate as the related fixed assets and intangible assets.

Pension plans

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

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**3. OTHER CONTRIBUTIONS**

	2007	2006	2005
Société de l'assurance automobile du Québec	\$7 746 107	\$8 313 098	\$7 633 594
Ministère de l'Emploi et de la Solidarité sociale	7 904 556	8 282 937	8 458 008
Régie des rentes du Québec	1 536 972	1 649 902	1 732 419
Commission de la santé et de la sécurité du travail	12 980	29 604	25 040
Gouvernement du Québec			676 154
	<u>\$17 200 615</u>	<u>\$18 275 541</u>	<u>\$18 525 215</u>

4. CAPITAL ASSETS

	2007			2006	2005
	Cost	Accumulated depreciation	Net value	Net value	Net value
Office furniture and equipment	\$684 515	\$597 496	\$87 019	\$121 217	\$117 638
Office automation and computer equipment	2 246 777	2 005 046	241 731	296 661	267 854
Leasehold improvements					
Major developments	4 035 992	1 792 774	2 243 218	2 512 284	2 781 350
Other	569 958	191 686	378 272	299 315	295 225
	<u>\$7 537 242</u>	<u>\$4 587 002</u>	<u>\$2 950 240</u>	<u>\$3 229 477</u>	<u>\$3 462 067</u>

5. INTANGIBLE ASSETS

	2007			2006	2005
	Cost	Accumulated depreciation	Net value	Net Value	Net Value
System development costs	\$3 579 882	\$1 863 317	\$1 716 565	\$1 167 422	\$1 097 903
Software	1 058 223	933 054	125 169	190 803	263 061
	<u>\$4 638 105</u>	<u>\$2 796 371</u>	<u>\$1 841 734</u>	<u>\$1 358 225</u>	<u>\$1 360 964</u>

Systems development costs include systems being developed. These systems, totalling \$952 470 at March 31, 2007 (\$520 770 in 2006 and \$450 690 in 2005), were not amortized during the fiscal year.

6. BANK BORROWING

The Tribunal has authorized rotating credit of \$2 000 000 with the Gouvernement du Québec. This instrument is renewable in March 2010. At March 31, 2007, 2006 and 2005, it was unused.

TRIBUNAL ADMINISTRATIF DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
7. LONG-TERM DEBT

	2007	2006	2005
Borrowings from the Société immobilière du Québec, fixed rates of 6.31% and 7.05%, repayable in monthly instalments of \$35 620, (capital and interest) with the final instalment in April 2016	\$2 739 315	\$2 971 050	\$3 187 665
Minus: Instalments due within one year	247 913	231 735	216 615
	<u>\$2 491 402</u>	<u>\$2 739 315</u>	<u>\$2 971 050</u>

The fair value of the long-term debt is approximately \$200 000 higher than its fair value, determined using the realized value of future cash flows using current interest rates for borrowings with similar conditions and terms.
 Payments of principal over the next five fiscal years break down as:

2008	\$247 913
2009	265 225
2010	283 749
2011	303 571
2012	324 782

8. FUTURE FRINGE BENEFITS
a) Pension plans

Tribunal staff and members 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 that include guaranteed payments on retirement and death.

The Tribunal's contributions charged to the year-end statement totalled \$990 908 (2006: \$938 677; 2005: \$652 170). Its liability towards these Government plans is restricted to its employer contributions.

Certain Tribunal members participate in no Government pension plan. Instead, they receive a sum equivalent to the employer's contribution for the duration of their contract. These amounts are posted to the fiscal year's operations and totalled \$7 548 (2006: \$11 212; 2005: \$19 230).

b) Provision for transition allocations

The transition allocations are payable to most full-time staff apart from those on unpaid leave in the total public service, working at December 31, 2005, who do not seek renewal of their mandate. According to the regulation on remuneration and Tribunal employees' other working conditions, this allocation corresponds to one month's wages at the time of departure per year of continuous service up to a maximum of twelve months.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007**8. FUTURE FRINGE BENEFITS (cont'd)****b) Provision for transition allocations (cont'd)**

	2007	2006	2007
Balance, beginning of year	\$5 652 645	\$5 784 518	\$5 896 786
Annual expenses	347 718	284 247	242 667
Decreases due to change in situation		(173 399)	(241 714)
Benefits paid	(68 017)	(242 721)	(113 221)
	<u>5 932 346</u>	<u>5 652 645</u>	<u>5 784 518</u>
Minus:			
Instalments maturing within one year	<u>2 471 728</u>	<u>404 136</u>	<u>242 721</u>
Balance, end of year	<u>\$3 460 618</u>	<u>\$5 248 509</u>	<u>\$5 541 797</u>

c) Contributions for transition allocations receivable

Under a Gouvernement du Québec Order-in-Council of 2005, Tribunal contributors must pay \$5 255 700 for transition allocations payable. At March 31, 2006, a receivable was registered and the consideration posted to revenues in the statement of operations. These amounts will be paid at the Tribunal's request.

	2007	2006	2005
Balance, beginning of year	\$4 839 580		
Registration of contributions receivable		\$5 255 700	
Reductions for decrease in provision for transition allocations		(173 399)	
Contributions received during fiscal year	(61 487)	(242 721)	
	<u>4 778 093</u>	<u>4 839 580</u>	
Minus:			
Contribution maturing within one year	<u>2 471 728</u>	<u>404 136</u>	
Balance, end of year	<u>\$2 306 365</u>	<u>\$4 435 444</u>	

d) Provision pour sick leave

	2007	2006	2005
Balance, beginning of year	\$2 785 849	\$2 687 247	\$2 730 373
Annual expenses	423 715	537 548	400 051
Benefits paid	(906 825)	(438 946)	(443 177)
	<u>2 302 739</u>	<u>2 785 849</u>	<u>2 687 247</u>
Minus:			
Instalments estimated within one year	<u>430 000</u>	<u>430 000</u>	<u>430 000</u>
Balance, end of year	<u>\$1 872 739</u>	<u>\$2 355 849</u>	<u>\$2 257 247</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007
9. CASH FLOWS

	2007	2006	2005
Change in non-cash items related to operations:			
Accounts receivable and accrued interest	\$(187 065)	\$(356 887)	\$8 672
Prepaid expenses	12 076	(14 311)	(93 737)
Provision for transition allocations receivable	61 487	(4 839 580)	
Accounts payable and accrued liabilities	(197 382)	212 337	255 893
Provision for transition allocations	279 701	(131 873)	(112 268)
Provision for sick leave	(483 110)	98 602	(43 126)
	<u>\$(514 293)</u>	<u>\$(5 031 712)</u>	<u>\$15 434</u>

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Tribunal is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Tribunal did not 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.

11. COMMITMENTS
Leases

The Tribunal is a party to equipment rental leases. Under these leases, whose expiry dates range from 2008 à 2012, the Tribunal committed to paying \$193 461. The minimum annual rent for the next five fiscal years is:

	2007
2008	\$51 708
2009	51 708
2010	48 179
2011	37 273
2012	4 593
	<u>\$193 461</u>

12. FINANCIAL INSTRUMENTS
Fair value

Cash on hand bears interest at the base rate minus 2.25% for fiscal years ended March 31, 2007, 2006 and 2005.

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

The fair value of the long-term debt is disclosed in Note 7.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2007

12. FINANCIAL INSTRUMENTS (cont'd)**Interest rate risk**

Interest rate volatility affects the fair value of financial assets and liabilities (market risk linked to interest rates – fixed) as well as the Tribunal's cash and cash equivalents (cash flows risk linked to interest rates – variable).

Borrowings from the Société immobilière du Québec have fixed interest rates. Consequently, the risk to which the Tribunal is exposed on these borrowings is minimal, given that the Tribunal plans to keep them until they mature.

13. COMPARATIVE FIGURES

Certain 2006 and 2005 figures were reclassified for consistency with the presentation adopted in 2007.

MANAGEMENT REPORT

The financial statements of the Tribunal administratif du Québec ("Tribunal") were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in the rest of the annual activity report concurs with the information provided in the financial statements.

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

The Auditor General of Québec has audited the Tribunal's financial statements, in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

M^e Jacques Forgues
President

Bernard Chartier, CA
Director of Administration and the
Fonds du Tribunal

Québec, June 7, 2007

TRIBUNAL ADMINISTRATIF DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Tribunal administratif du Québec (“Tribunal”) as at March 31, 2007 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Tribunal’s management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Tribunal as at March 31, 2007 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, these principles were applied on a basis consistent with that of the preceding years.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 7, 2007



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