

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

2005-2006

Publication prepared under the authority of
the Minister of Finance

**Financial statements of the agencies and entreprises of the Québec
2005-2006**

**Legal deposit - Bibliothèque et Archives nationales du Québec
August 2007**

ISBN 978-2-550-50342-2 (Printed)

ISBN 978-2-550-50343-9 (PDF)

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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, August 2007

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(*) Not available at time of publication

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

INCOME STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Gouvernement du Québec contribution	\$2 171 200	\$2 774 300
Contribution – Other partners (Note 3)	13 756 138	7 614 856
Other revenue	<u>97 492</u>	<u>157 626</u>
	<u>16 024 830</u>	<u>10 546 782</u>
EXPENSES		
Subsidies awarded (Note 4)	10 804 524	6 235 431
Sponsorships and promotion	480 608	442 158
Salaries and fringe benefits	2 277 211	2 220 106
Professional fees and administrative expenses	630 564	533 520
Communications	521 376	1 181 457
Training	22 182	25 203
Leasing costs	127 497	175 948
Supplies	44 202	74 635
Maintenance and repairs	7 296	10 995
Change in the provision for collection risk loans	53 756	(28 585)
Bad debts	24 340	67 859
Financial expenses	31 299	1 083
Loss on disposal of fixed assets	5 050	
Depreciation of fixed assets	<u>32 257</u>	<u>42 320</u>
	<u>15 062 162</u>	<u>10 982 130</u>
SURPLUS (INSUFFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$962 668</u></u>	<u><u>\$(435 348)</u></u>

The notes are an integral part of these financial statements.

SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	\$1 356 210	\$1 791 558
Surplus (Insufficiency) of revenues over expenses	<u>962 668</u>	<u>(435 348)</u>
CLOSING BALANCE	<u><u>\$2 318 878</u></u>	<u><u>\$1 356 210</u></u>

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUEBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Consolidated Revenue Fund receivable	\$662 359	\$469 404
Accounts receivable (Note 5)	4 444 250	3 287 089
Prepaid expenses		46 340
Loans redeemable in short term (Note 6)	<u>115 813</u>	<u>205 512</u>
	5 222 422	4 008 345
Loans (Note 6)	103 307	154 126
Fixed assets (Note 7)	<u>61 851</u>	<u>133 861</u>
	<u><u>\$5 387 580</u></u>	<u><u>\$4 296 332</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 8)	\$1 684 754	\$2 058 683
Revenue received in advance	695 545	244 870
Short-term portion of the long-term debt (Note 9)	<u>4 572</u>	<u>4 263</u>
	2 384 871	2 307 816
Long-term debt (Note 9)	2 818	7 390
Provision for sick leave (Note 10)	<u>614 036</u>	<u>557 939</u>
	<u>3 001 725</u>	<u>2 873 145</u>
EQUITY		
Gouvernement du Québec contributed surplus	66 977	66 977
Appropriated surplus (Note 11)	<u>2 318 878</u>	<u>1 356 210</u>
	<u>2 385 855</u>	<u>1 423 187</u>
	<u><u>\$5 387 580</u></u>	<u><u>\$4 296 332</u></u>

COMMITMENTS (Note 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Guylaine Lehoux
 Richard Aubry

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
CASH FLOW STATEMENT
 for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Surplus (Insufficiency) of revenues over expenses	\$962 668	\$(435 348)
Adjustments for:		
Change in the provision for collection risk loans	53 756	(28 585)
Depreciation of fixed assets	32 257	42 320
Loss on disposal of fixed assets	5 050	
	<u>1 053 731</u>	<u>(421 613)</u>
Change in non-cash elements related to operations		
Increase in accounts receivable	(1 157 161)	(519 621)
Change in prepaid expenses	46 340	(46 340)
Change in accounts payable and accruals	(373 929)	181 713
Increase in revenue received in advance	450 675	161 751
Increase in provision for sick leave	56 097	37 653
	<u>(977 978)</u>	<u>(184 844)</u>
Cash flows provided by (used for) operating activities	<u>75 753</u>	<u>(606 457)</u>
INVESTMENT ACTIVITIES		
Loans	(48 750)	(50 991)
Repayment of loans	135 512	126 575
Acquisition of fixed assets	(8 497)	(75 212)
Proceeds from disposal of fixed assets	43 200	
Cash flows provided by investment activities	<u>121 465</u>	<u>372</u>
FINANCING ACTIVITIES		
Repayment of the long-term debt	<u>(4 263)</u>	<u>(3 976)</u>
INCREASE (DECREASE) - ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND	192 955	(610 061)
ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND, BEGINNING OF YEAR	<u>469 404</u>	<u>1 079 465</u>
ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED REVENUE FUND, END OF YEAR	<u>\$662 359</u>	<u>\$469 404</u>

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

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

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Contribution

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 carried over and transferred to revenue as the expenses they finance are incurred.

Subsidies and loans

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

Fixed assets

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

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

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

The Agence regularly examines the book value of its fixed assets, comparing their book value with undiscounted future cash flows that should be generated by the asset. Any surplus of the book value over the fair value is posted to the results of the period during which the depreciation was determined.

Provision for collection risk loans

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

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Pension plans

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

Cash and cash equivalents

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

3. CONTRIBUTION – OTHER PARTNERS

	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		1 228 950		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>\$4 685 811</u>	<u>\$46 202</u>	<u>\$13 756 138</u>
2004-2005						
Novoclimat – Single-family	\$665 638			\$160 001		\$825 639
Novoclimat – Dwelling	224 784					224 784
Measure for low-income households	2 320 824	\$1 725				2 322 549
Energy evaluation service	626 383			1 089 730		1 716 113
Call centre						
Building regulations	200 000					200 000
Federal programs (CBIP, EII, REDI)				2 000 146		2 000 146
Other initiatives	58 359	36 000		33 348	\$197 918	325 625
	<u>\$4 095 988</u>	<u>\$37 725</u>		<u>\$3 283 225</u>	<u>\$197 918</u>	<u>\$7 614 856</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUENOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. CONTRIBUTION – OTHER PARTNERS (cont'd)**

- * In a bid for fairness towards all energy consumers, in 2005-2006, from its own budget, the Agence assumed the expenses of programs for customers whose main heating source is fuel oil. The Agence intends to recover these amounts from the distributors concerned once its governing legislation has been amended.

4. SUBSIDIES AWARDED

	2006	2005
Government enterprises and agencies	\$78 100	\$235 000
Private-sector enterprises	3 480 489	2 001 947
Municipalities and municipal housing bureaus	235 476	349 835
Homes	241 800	
Health, educational and social services institutions	2 703 728	1 665 882
Private-sector non-profit organizations	4 064 931	1 982 767
	<u>\$10 804 524</u>	<u>\$6 235 431</u>

5. ACCOUNTS RECEIVABLE

	2006	2005
Receivable - Other partners	\$4 404 787	\$3 193 519
Other	39 463	93 570
	<u>\$4 444 250</u>	<u>\$3 287 089</u>

6. LOANS

	2006	2005
Loans, interest-free, repayable from 2005 to 2009	\$334 687	\$433 950
Loans, interest-free, repayable in royalties	57 150	368 025
Loans, interest-free, repayable according to conditions stipulated in an agreement	90 280	108 006
	<u>482 117</u>	<u>909 981</u>
Provision for collection risk loans		
Loans, interest-free, repayable from 2005 to 2009	(148 567)	(126 068)
Loans, interest-free, repayable in royalties	(57 150)	(368 025)
Loans, interest-free, repayable according to conditions stipulated in agreements	(57 280)	(56 250)
	<u>(262 997)</u>	<u>(550 343)</u>
Net loans	219 120	359 638
Less: Loans redeemable in short term	115 813	205 512
	<u>\$103 307</u>	<u>\$154 126</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006
7. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net Value
Automotive equipment	\$69 200	\$69 200	\$4 143
Furniture and equipment	19 797	19 797	
Data processing equipment	149 295	130 795	26 600
Specialized equipment	43 845	8 229	91 515
	282 137	228 021	122 258
Item leased under capital lease			
Furniture and equipment	19 337	11 602	11 603
	<u>\$301 474</u>	<u>\$239 623</u>	<u>\$133 861</u>

8. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Subsidies awarded	\$1 164 932	\$1 278 100
Accounts payable	170 910	440 264
Salaries and fringe benefits	84 201	62 616
Vacation time	264 711	277 703
	<u>\$1 684 754</u>	<u>\$2 058 683</u>

9. LONG-TERM DEBT

	2006	2005
Liability for fixed assets, bearing interest at 7%, repayable in monthly instalments of \$412, including capital and interest, maturing in October 2007	\$7 828	\$12 772
Interest included in payments	(438)	(1 119)
	7 390	11 653
Minus: Portion maturing in the short term	(4 572)	(4 263)
	<u>\$2 818</u>	<u>\$7 390</u>

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

2007	\$4 944
2008	2 884
	<u>\$7 828</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. FUTURE FRINGE BENEFITS**Pension plans**

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

The Agence's contributions charged to the year-end statement amount to \$102 255 (2005: \$80 073). The Agence's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Opening balance	\$557 939	\$520 286
Charge for the year	94 849	79 724
Benefits paid during the year	(38 752)	(42 071)
Closing balance	<u>\$614 036</u>	<u>\$557 939</u>

11. APPROPRIATED SURPLUS

Subsequent to management's decision, the Agence appropriated part of its surplus (\$15 000) to meet its last commitment specific to the energy efficiency promotion program. It also slated \$1 262 680 for maintaining sufficient activity, ensuring itself of revenue from partners in keeping with contribution agreements and initiating the work resulting from the energy strategy.

12. COMMITMENTS

The Agence is committed to paying maximum subsidies of \$399 700 in 2007 under the programs it administers. However, these subsidies are conditional upon the appropriations allocated by Parliament.

13. FINANCIAL INSTRUMENTS

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

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

Fair value

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

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt	<u>\$7 390</u>	<u>\$6 930</u>	<u>\$11 653</u>	<u>\$10 724</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

13. FINANCIAL INSTRUMENTS (cont'd)**Credit risk**

The Agence's exposure to credit risk corresponds to the book value of financial assets. The credit risk related to these assets is not concentrated in a single activity sector. The Agence evaluates these assets on an ongoing basis and posts a provision for losses when they are deemed unrecoverable.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Agence 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 Agence 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 was established and was to be paid by the Department. Since then, the Agence 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 Agence to determine the amount involved, given that the terms and conditions are not yet set.

16. COMPARATIVE FIGURES

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

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

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

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

Réjean Carrier
Director General

Lysane Montminy
Director, Business Development

Québec, June 12, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Agence de l'efficacité énergétique as at March 31, 2006, the income statement, surplus statement, and cash flow statement for the year then ended. These financial statements are the responsibility of Agence management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at March 31, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 12, 2006

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

REVENUE AND SURPLUS
for the period from April 18, 2005 to March 31, 2006

	2006 (11 months)
REVENUES	
Gouvernement du Québec contribution (Note 3)	\$2 467 250
Transfer of government assistance	3 978
Consultation fees	157 867
	<u>2 629 095</u>
EXPENSES	
Salaries and fringe benefits	1 291 607
Professional and administrative services	917 371
Rent	203 847
Travel and promotion	86 954
Communications	46 298
Furnishings and supplies	52 812
Amortization of fixed assets	24 619
Amortization of tangible assets	1 221
Interest on the long-term debt	3 461
Bank fees	905
	<u>2 629 095</u>
NET INCOME AND SURPLUS, END OF YEAR	<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, 2006

	<u>2006</u>
ASSETS	
Current assets	
Cash on hand	\$217 668
Accounts receivable (Note 4)	285 086
Prepaid expenses	<u>18 590</u>
	521 344
Fixed assets (Note 5)	<u>509 883</u>
	<u><u>\$1 031 227</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accruals	\$190 115
Amount owed to the Gouvernement du Québec, Interest-free, no terms of repayment	258 213
Short-term portion of the long-term debt (Note 7)	66 822
Provision for vacation time (Note 8)	<u>99 367</u>
	614 517
Provision for sick leave (Note 8)	116 473
Deferred government assistance – amortized cost	19 890
Long-term debt (Note 7)	<u>280 347</u>
	1 031 227
SURPLUS	
	<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
CASH FLOW

for the period from April 18, 2005 to March 31, 2006

	2006 (11 months)
OPERATING ACTIVITIES	
Net income	
Element not affecting cash flow	
Transfer of government assistance	\$(3 978)
Amortization of fixed assets	24 619
Amortization of tangible assets	1 221
	<u>21 862</u>
Change in assets and liabilities linked to operations	
Prepaid expenses	(18 590)
Accounts receivable	(285 086)
Accounts payable	187 394
Amount owed to the government	258 213
Provision for vacation time	99 367
Provision for sick leave	116 473
	<u>357 771</u>
Cash flows related to operating activities	<u>379 633</u>
INVESTMENT ACTIVITIES	
Acquisitions of fixed assets	(133 015)
Acquisition of tangible assets	(14 384)
Cash flows related to investment activities	<u>(147 399)</u>
FINANCING ACTIVITIES	
Cash flows related to financing activities:	
Long-term debt	(14 566)
INCREASE IN CASH ON HAND	217 668
CASH ON HAND, BEGINNING OF YEAR	<u> </u>
CASH ON HAND, END OF YEAR	<u><u>\$217 668</u></u>

Interest paid over the fiscal year totals \$2 790.

During the year, fixed assets and intangible assets were acquired in consideration of creditors, representing \$2 721.

The Agence acquired \$361 735 worth of fixed 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 FINANCIAL STATEMENTS March 31, 2006

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 Agence'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 Agence is a mandatory of the State and, as such, is not subject to Québec and Canadian income taxes.

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed assets

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

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

The Agence regularly examines the book value of its fixed assets by comparing their book value with unrealized future cash flows expected to be generated by the asset. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

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

Fixed assets

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

They undergo a depreciation test when events or changes in the situation indicated 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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Services rendered 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 interenterprise government defined-benefit plans, given that the Agence lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. GOUVERNEMENT'S CONTRIBUTION

Under section 69 of its incorporating legislation, the sums required to carry out this Act during the fiscal year 2005-2006 are taken out of the Consolidated Revenue Fund. The contribution posted as proceeds for the fiscal year corresponds to related expenses incurred by the Agence.

4. ACCOUNTS RECEIVABLE

	2006
Gouvernement du Québec *	\$127 219
Ministère des Transports du Québec	126 744
Ministère de la Culture et des Communications	31 123
	<u>\$285 086</u>

* This debtor corresponds to the sum transferred to the Agence for the seconding of Secrétariat du Conseil du trésor employees (notes 1 to 8).

5. FIXED ASSETS

	As at March 31, 2006		
	Cost	Accumulated depreciation	Net
Fixed 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
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.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. BANK BORROWING

Under Order-in-Council 169-2006, the Gouvernement du Québec authorized the Agence to contract a bank credit line, which is underwritten by the Gouvernement du Québec and renewable annually.

At March 31, 2006, the Agence had not yet contracted this borrowing.

7. LONG-TERM DEBT

Borrowing from the Société immobilière du Québec

	2006
At a fixed rate of 4.69%, repayable in monthly instalments of \$3 471, maturing October 31, 2010	\$171 488
At a fixed rate of 4.70%, repayable in monthly instalments of \$3 278, maturing March 31, 2011	175 681
	<u>347 169</u>
Minus: Portion maturing in the short term	66 822
	<u>\$280 347</u>

Capital payments to be made in the next 5 fiscal years break down as follows:

2007	\$66 822
2008	69 310
2009	72 635
2010	76 121
2011	62 281
	<u>\$347 169</u>

8. FRINGE BENEFITS

Pension plans

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

The Agence's contributions charged to the year-end statement amount to \$38 735. The Agence's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	<u>Vacation time</u>	<u>Sick leave</u>	<u>Total</u>
Fiscal year's expenses			
Increase due to arrival of employees (Note 1)	\$37 091	\$90 128	\$127 219
Increase due to fiscal year	107 129	29 362	136 491
Benefits paid during the year	<u>(44 853)</u>	<u>(3 017)</u>	<u>(47 870)</u>
	<u>\$99 367</u>	<u>\$116 473</u>	<u>\$215 840</u>

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Agence is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. With the exception of the transaction disclosed in Note 5 regarding the transfer of computers to the Agence and recorded at book value. The Agence 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**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, 2006 are similar to those prevailing during their issue.

Credit risk

The Agence's exposure to credit risk corresponds to the book value of the financial asset elements.

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 Agence foresees repaying these borrowings in full when they mature, the risks to which the Agence is exposed in relation to the long-term debt are minimal.

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

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors 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 Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Jacques Dutil
Director, Administration

Pierre Lefebvre
President-CEO

Québec, June 5, 2006

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, 2006 and the revenue and surplus and cash flow statements for the period from April 18, 2005 to March 31, 2006. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at March 31, 2006 and the results of its operations and its cash flows for the period from April 18, 2005 to March 31, 2006.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 5, 2006

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

OPERATING ACTIVITIES AND SURPLUS STATEMENT
for the year ended December 31, 2005
(in thousands of dollars)

	Budget 2005 (unaudited)	2005	2004
REVENUES			
Government remittances:			
for fuel tax	50 450	50 905	50 792
for licence fees	49 278	49 441	48 704
Net revenue from TRAM sales (Note 4)	57 446	58 419	54 427
Revenue from commuter trains (Note 5)	35 342	37 617	34 576
Municipal contributions to the cost of commuter rail systems (Note 5)	30 505	29 520	28 276
Ministère des Transports du Québec subsidies to service the public transit operating authorities (PTOA) debt (Note 14):			
for commuter trains	7 122	7 122	7 125
for metropolitan transit facilities	675	659	971
Government assistance for adapted transportation program	450	450	375
Revenue from metropolitan expresses	1 358	1 443	1 308
Municipal contributions to metropolitan expresses	557	413	170
Contributions to metropolitan transit facilities	829	690	670
Other	1 000	1 393	1 083
	<u>235 012</u>	<u>238 072</u>	<u>228 477</u>
EXPENSES			
Distribution of net revenue from TRAM sales (Note 4)	57 446	58 419	54 427
Metropolitan assistance and related expenditures (Note 6)	56 439	56 600	56 375
Commuter trains (Note 5)	79 713	79 567	76 688
Metropolitan transit facilities	12 859	12 353	11 746
PTOA debt servicing (Note 14):			
for commuter trains	7 122	7 122	7 125
for metropolitan transit facilities	843	850	1 350
Operating expenses	5 500	5 474	4 814
Development assistance	2 900	2 113	2 509
Assistance for reduced-rate TRAM tickets and related expenses (Note 7)	5 242	5 288	4 920
Rate integration assistance (Note 8)	757	937	
Adapted transportation	1 033	945	700
Metropolitan expresses	2 783	2 749	2 420
Other	2 375	2 096	2 371
	<u>235 012</u>	<u>234 513</u>	<u>225 445</u>
Surplus for the fiscal year before distribution of a special remittance to PTOAs		3 559	3 032
Special remittance to PTOAs (Note 9)		3 059	2 850
SURPLUS FOR THE YEAR		500	182
SURPLUS, BEGINNING OF YEAR		500	318
SURPLUS, END OF YEAR		<u>1 000</u>	<u>500</u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

GENERAL FUND

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

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash on hand and term deposits	34 066	20 198
Government remittances receivable	21 436	21 906
Amount receivable	6 055	8 057
Spare parts for commuter trains	<u>2 966</u>	<u>3 710</u>
	<u><u>64 523</u></u>	<u><u>53 871</u></u>
 LIABILITIES AND FUND BALANCE		
Accounts payable and accruals	63 523	53 371
 FUND BALANCE		
Accumulated surplus	<u>1 000</u>	<u>500</u>
	<u><u>64 523</u></u>	<u><u>53 871</u></u>

COMMITMENTS AND CONTINGENCIES (Note 14)

See notes to the financial statements.

On behalf of the Board of Directors,
Martine Corriveau-Gougeon, Director
Jean-Robert Grenier, Director

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

for the years ended December 31

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
PERMANENT FINANCING		
Ministère des Transports du Québec subsidies	234 846	180 317
Municipal contributions (Note 10)	18 106	16 751
Other subsidies	403	1 343
Other	<u>1 198</u>	<u>1 114</u>
	<u>254 553</u>	<u>199 525</u>
INVESTMENT IN FIXED ASSETS		
Commuter trains		
Deux-Montagnes	125	482
Dorion-Rigaud	22 077	20 820
Blainville	28 534	335
Mont-Saint-Hilaire	337	1 640
Delson-Candiac	2 245	
Metropolitan transit facilities		
Reserved traffic lanes	1 632	2 382
Terminus	3 691	5 838
Change in construction work in progress		
Metro extension towards Laval	196 044	168 865
Contribution to Réno-systèmes program		(7 830)
Feasibility and preliminary design studies – Light trains		(9 306)
Other	<u>3 708</u>	<u>603</u>
	<u>258 393</u>	<u>183 829</u>
Contribution for other metropolitan projects		
Contribution Réno-systèmes program	10 330	16 268
Feasibility and preliminary design studies – Light trains	224	12 362
Feasibility studies – Miscellaneous	670	1 320
Other	<u>2 101</u>	<u>966</u>
	<u>271 718</u>	<u>214 745</u>
SHORTFALL OF PERMANENT FINANCING OVER INVESTMENTS OF THE YEAR	<u>(17 165)</u>	<u>(15 220)</u>
Permanent financing to be obtained, beginning of year	<u>(46 987)</u>	<u>(31 767)</u>
PERMANENT FINANCING TO BE OBTAINED, END OF YEAR	<u><u>(64 152)</u></u>	<u><u>(46 987)</u></u>

See notes to the financial statements.

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

as at December 31

(in thousands of dollars)

	<u>2005</u>	<u>2004</u> Adjusted (Note 3)
ASSETS		
Cash on hand and term deposits	7 347	6 088
Ministère des Transports du Québec receivable	688 458	479 642
Fixed assets (Note 11)	991 034	759 491
Other	<u>1 091</u>	<u>1 331</u>
	<u><u>1 687 930</u></u>	<u><u>1 246 552</u></u>
LIABILITIES AND FUND BALANCE		
Accounts payable and accruals	94 767	82 824
Notes payable (Note 13)	<u>666 281</u>	<u>451 224</u>
	<u>761 048</u>	<u>534 048</u>
FUND BALANCE		
Permanent financing to be obtained	(64 152)	(46 987)
Net investments in fixed assets	<u>991 034</u>	<u>759 491</u>
	<u><u>1 687 930</u></u>	<u><u>1 246 552</u></u>

COMMITMENTS AND CONTINGENCIES (Note 14)

See notes to the financial statements.

On behalf of the Board of Directors,
Martine Corriveau-Gougeon, Director
Jen-Robert Grenier, Director

NET INVESTMENTS IN FIXED ASSETS

as at December 31

(in thousands of dollars)

	<u>2005</u>	<u>2004</u> Adjusted (Note 3)
OPENING BALANCE (previously established)	786 796	624 319
Change in amortization policy (Note 3)	<u>(27 305)</u>	<u>(23 535)</u>
ADJUSTED BALANCE	<u>759 491</u>	<u>600 784</u>
Acquisition of fixed assets	258 393	183 829
Depreciation of fixed assets	<u>(26 850)</u>	<u>(25 122)</u>
CLOSING BALANCE	<u><u>991 034</u></u>	<u><u>759 491</u></u>

See notes to the financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(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 Québec government agent, created under the Act respecting the Agence métropolitaine de transport (R.S.Q., c. A-7.02, referred to as the Act), which began its activities on January 1, 1996. In keeping with its incorporating legislation, the AMT manages, operates and finances commuter train services, metropolitan services and metropolitan transit facilities. It plans and carries out all metro network extensions. Financially speaking, the AMT supports the transit agencies in the Montréal region and sets the metropolitan rates and terms and conditions for sharing metropolitan receipts between transit agencies. The AMT has authority over public transit systems located within its territory, which represents the combined territories of the Communauté urbaine de Montréal, the city of Saint-Jérôme and the Kahnawake Indian reserve.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies

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

i) General Fund

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

ii) Fixed Assets Fund

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

Accounting estimates

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

Accounting method

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

Government subsidies

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

Spare parts

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

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

December 31, 2005

(in thousands of dollars)

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

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

Commuter trains – infrastructures	20 years
Commuter trains – worn rolling stock	10 years
Commuter trains – new rolling stock - 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	20 years

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

3. CHANGE IN THE AMORTIZATION POLICY FOR COMMUTER TRAINS – NEW ROLLING STOCK

Since the establishment of its amortization policy in 2003, the AMT amortized its new locomotives and cars using the straight-line method over 40 years. In fiscal 2005, the AMT conducted a detailed review of all of the service lives of new components of its commuter trains. As a result, AMT management reduced the service life of its new locomotives to 20 years and its new cars to 25 years. Changes to its amortization policy were applied retroactively and involved reprocessing of past fiscal years' financial statements. In the Fixed Assets Fund balance sheet of December 31, 2004, these changes reduced the fixed assets balance by \$27 305. The opening balance of net investments in immoveables for 2004 was also reduced by \$23 535 to reflect the impact of these changes on past fiscal years. These changes also increased the amortization of immoveables by \$3 660 for 2005 and \$3 770 for 2004.

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:

	Budget 2005 - unaudited	2005	2004
Société de transport de Montréal	26 136	25 858	24 497
Réseau de transport de Longueuil	14 706	14 405	13 961
Société de transport de Laval	7 789	8 214	7 423
Intermunicipal transportation councils	6 278	7 132	6 025
Conseil régional de transport de Lanaudière	1 897	2 181	1 916
Municipalities	640	629	605
	<u>57 446</u>	<u>58 419</u>	<u>54 427</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

5. COMMUTER TRAINS

Commuter train receipts

Commuter train receipts come from the sale of train tickets and a \$25 424 allocation for TRAM sales in 2005 (\$23 762 in 2004).

Receipt breakdown by commuter train line is as follows:

	Budget 2005 - unaudited	2005	2004
Deux-Montagnes	15 600	17 008	15 799
Dorion-Rigaud	5 506	6 038	5 411
Blainville	7 470	7 419	7 064
Mont-Saint-Hilaire	4 994	5 218	4 661
Delson-Candiac	1 772	1 934	1 641
	<u>35 342</u>	<u>37 617</u>	<u>34 576</u>

Municipal contributions to commuter trains

In keeping with the Act, the AMT breaks down a portion of the operating and management costs of the Deux-Montagnes and Dorion-Rigaud commuter train lines between the municipalities served by a commuter train line according to the train-kilometres serving each section.

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

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

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

	Budget 2005 - unaudited	2005	2004
Deux-Montagnes	12 018	11 857	11 899
Dorion-Rigaud	9 525	9 178	9 014
Blainville	4 687	4 412	3 456
Mont-Saint-Hilaire	2 998	2 883	2 970
Delson-Candiac	1 277	1 190	937
	<u>30 505</u>	<u>29 520</u>	<u>28 276</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)
 December 31, 2005
 (in thousands of dollars)

5. COMMUTER TRAINS (cont'd)**Operating costs**

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

	Budget 2005 - unaudited	2005	2004
Deux-Montagnes	30 045	29 643	29 749
Dorion-Rigaud	22 631	22 736	22 365
Blainville	11 717	11 825	10 520
Mont-Saint-Hilaire	10 990	10 984	10 599
Delson-Candiac	4 330	4 379	3 455
	<u>79 713</u>	<u>79 567</u>	<u>76 688</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 metro transit system or the metropolitan transit bus system.

The amount of metropolitan transit assistance is calculated as follows:

- \$0.20 per passenger assessed using metro system turnstile readings totalling \$43 610 in 2005 (\$43 495 in 2004).
- \$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 \$12 775 in 2005 (\$12 684 in 2004).

Metropolitan transit assistance breaks down as follows:

	Budget 2005 - unaudited	2005	2004
Metro:			
Société de transport de Montréal	<u>43 700</u>	<u>43 610</u>	<u>43 495</u>
Bus:			
Société de transport de Montréal	5 766	6 010	5 999
Réseau de transport de Longueuil	3 169	3 094	3 153
Société de transport de Laval	1 822	1 820	1 797
Intermunicipal transportation councils	1 300	1 326	1 261
Conseil régional de transport de Lanaudière	374	409	373
Municipalities	<u>108</u>	<u>116</u>	<u>101</u>
	<u>12 539</u>	<u>12 775</u>	<u>12 684</u>
Related expenditures	<u>200</u>	<u>215</u>	<u>196</u>
	<u>56 439</u>	<u>56 600</u>	<u>56 375</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

7. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE TRAM TICKETS

Under subparagraph 9, paragraph 1, section 35 of the Act, since 1999, the AMT has covered the cost of the discount offered for TRAM tickets to compensate, in whole or in part, the PTOAs for the reduced and intermediate rate tickets offered TRAM users. For the year 2005, the AMT set the ceiling for assistance for reduced and intermediate rate TRAM tickets at \$5 288 for TRAM zone 1-8 (\$4 920 in 2004 for TRAM 1-8).

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

	Budget 2005 - unaudited	2005	2004
Société de transport de Montréal	2 296	2 259	2 176
Réseau de transport de Longueuil	1 358	1 329	1 274
Société de transport de Laval	698	738	665
Intermunicipal transportation councils	625	675	543
Conseil régional de transport de Lanaudière	198	225	199
Municipalities	67	62	63
	<u>5 242</u>	<u>5 288</u>	<u>4 920</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, that TOA participating in the metropolitan fare system, a portion of the metropolitan receipts at least equivalent to the receipts that would have been generated by their local rates reduced by the metropolitan rate discount.

Rate integration assistance breaks down as follows:

	Budget 2005 - (unaudited)	2005	2004
Société de transport de Montréal	490	572	
Réseau de transport de Longueuil	110	131	
Société de transport de Laval	134	212	
Intermunicipal transportation councils	22	22	
Conseil régional de transport de Lanaudière	1		
	<u>757</u>	<u>937</u>	

9. SPECIAL REMITTANCE TO PTOAs

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

Given the budgetary difficulties facing transport organizations, especially transportation societies, the members of the board of directors decided, at their February 17, 2006 meeting, to use the \$3 559 M surplus of revenues over expenditures to pay a special remittance of \$3 059 (\$2 850 in 2004) to the PTOAs. This remittance is broken down on a prorated basis according to the total metropolitan assistance, assistance for reduced and intermediate rates and rate integration assistance attributed to each PTOA in 2005.

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

December 31, 2005

(in thousands of dollars)

9. SPECIAL REMITTANCE TO TPOA (cont'd)

	Budget 2005 - (unaudited)	2005	2004
Société de transport de Montréal		2 562	2 404
Réseau de transport de Longueuil		223	208
Société de transport de Laval		135	116
Intermunicipal transportation councils		99	87
Conseil régional de transport de Lanaudière		31	27
Municipalities		9	8
		<u>3 059</u>	<u>2 850</u>

10. MUNICIPAL CONTRIBUTIONS

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

11. FIXED ASSETS

	Cost	2005 Accumulated depreciation	Net value	2004 Net value Adjusted (Note 3)
Commuter trains - Deux-Montagnes				
Land	15 035		15 035	15 035
Infrastructures	80 435	40 065	40 370	44 338
Rolling stock	129 732	54 331	75 401	80 546
Commuter trains - Dorion-Rigaud				
Land	746		746	519
Infrastructures	41 716	25 278	16 438	16 813
Rolling stock	111 411	45 970	65 441	48 493
Commuter trains - Blainville				
Land	2 353		2 353	1 986
Infrastructures	19 669	3 864	15 805	14 818
Rolling stock	55 550	11 552	43 998	21 318
Commuter trains - Mont-Saint-Hilaire				
Land	2 575		2 575	2 403
Infrastructures	29 721	4 984	24 737	26 054
Rolling stock	13 064	4 936	8 128	9 434
Commuter trains - Delson-Candiac				
Land	54		54	
Infrastructures	5 989	697	5 292	3 345
Rolling stock	6 184	1 890	4 294	4 910
Amounts carried forward	<u>514 234</u>	<u>193 567</u>	<u>320 667</u>	<u>290 012</u>

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

December 31, 2005

(in thousands of dollars)

11. FIXED ASSETS (cont'd)

	2005		2004
	Cost	Accumulated depreciation	Net value
			Adjusted (Note 3)
Amounts brought forward	514 234	193 567	320 667
Metropolitan transit facilities			
Land	20 273		20 273
Reserved traffic lanes	47 066	8 773	38 293
Incentive parking	14 850	3 593	11 257
Terminus	35 132	7 814	27 318
Spare parts for commuter trains	2 545		2 545
Construction work in progress			
Metro extension towards Laval	532 342		532 342
Other projects	38 339		38 339
	<u>1 204 781</u>	<u>213 747</u>	<u>991 034</u>
			<u>759 491</u>

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

12. SHORT-TERM LOAN

In keeping with Order-in-Council 875-2005 of September 28, 2005, the Gouvernement du Québec gave the AMT authorization until December 31, 2006 to contract fluctuating or fixed rate loans from Canadian financial institutions or the Ministère des Finances, to a maximum, including financing charges, of \$100 000 in legal Canadian tender. The term of these loans shall, under no circumstances, exceed one year.

13. NOTES PAYABLE

The AMT contracted loans with the Ministère des Finances as manager of the Financing Fund. Under the Gouvernement du Québec's mass transit assistance program, the Ministère des Transports (MTQ) committed to paying the AMT an annual subsidy of an amount corresponding to the reimbursement of these notes, capital and interest. During the fiscal year, the total amount of the MTQ subsidy for the reimbursement of these notes was \$53 004, including \$25 763 in interest.

	2005	2004
Bills payable, issued in 2000, at interest rates varying between 6.270% and 6.340% - Maturing in 2007	23 752	25 741
Bills payable, issued in 2003, at an interest rate of 4.513% - Maturing in 2008	5 884	7 676
Bills payable, issued in 1999, at an interest rate of 6.320% - Maturing in 2009	6 111	7 626
Bills payable, issued in 2000, 2001 and 2003, at interest rates varying between 4.283% and 5.958% - Maturing in 2010	<u>103 660</u>	<u>110 800</u>
Amounts carried forward	<u>139 407</u>	<u>151 843</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

13. NOTES PAYABLE (cont'd)

	2005	2004
Amounts brought forward	139 407	151 843
Bills payable, issued in 2005, at an interest rate of 4.079% - Maturing in 2011	27 067	
Bills payable, issued in 2002, at interest rates varying between 5.385% and 5.945% - Maturing in 2012	61 847	66 816
Bills payable, issued in 2003, 2004 and 2005, at interest rates varying between 4.315% and 5.167% - Maturing in 2013	177 106	72 912
Bills payable, issued in 2004 and 2005, at interest rates varying between 4.169% and 5.267% - Maturing in 2014	161 113	126 882
Bills payable, issued in 2005, at interest rates varying between 4.339% and 4.783% - Maturing in 2015	56 270	
Bills payable, issued in 2002, at interest rates varying between 5.524% and 6.039% - Maturing in 2022	9 219	9 523
Bills payable, issued in 2004, at interest rates varying between 5.379% and 5.453% - Maturing in 2024	22 589	23 248
Bill payable, issued in 2005, at an interest rate of 5.261% - Maturing in 2025	11 663	
	<u>666 281</u>	<u>451 224</u>

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

	MTQ	AMT	Total
2006	62 624	6 532	69 156
2007	73 439	15 097	88 536
2008	60 015	5 557	65 572
2009	56 910	5 556	62 466
2010	116 517	6 807	123 324
2011 and thereafter	426 965	35 224	462 189
	<u>796 470</u>	<u>74 773</u>	<u>871 243</u>
Interest included in the amount of reimbursements above	(190 612)	(14 350)	(204 962)
	<u>605 858</u>	<u>60 423</u>	<u>666 281</u>

The \$605 858 assumed by the MTQ is recorded to assets in the Fixed Assets Fund balance sheet at December 31, 2005 as a Ministère des Transports du Québec receivable.

14. COMMITMENTS AND CONTINGENCIES

General Fund commitments

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

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

14. COMMITMENTS AND CONTINGENCIES (cont'd)

General Fund commitments (cont'd)

2006	52 710
2007	24 677
2008	16 869
2009	6 771
2010	1 390
2011 and thereafter	2 027
	<u>104 444</u>

Fixed Assets Fund commitments

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

2006	96 548
2007	11 376
2008	44
	<u>107 968</u>

The fixed assets projects under way include the metro extension to Laval. At December 31, 2005, the project's estimated final cost was estimated at \$803 600, \$532 342 had been realized and \$69 675 was included in the above-mentioned commitments. This project is fully subsidized by the MTQ.

Debt service for public transit operating authorities for commuter trains and metropolitan transit facilities

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

2006	6 276
2007	2 337
	<u>8 613</u>

Claims

In its normal course of business, the AMT is involved in various claims and lawsuits. Although the outcomes of the different files active on December 31, 2005 cannot be foreseen with any certainty, the AMT estimates that they should not have significant negative their repercussions on its financial position and net results, given the provisions or insurance coverage related to these elements.

15. COMPARATIVE FIGURES

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

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 General Fund and the Fixed Assets Fund of the Agence métropolitaine de transport (AMT) as at December 31, 2005, the operating activities and surplus statement of the Operating Fund, the operations and permanent financing statement of the Fixed Assets Fund and the net investments in fixed assets statement for the year then ended. These financial statements are the responsibility of Agence management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles disclosed in Note 2.

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

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

Montréal, Québec
March 17, 2006

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

INCOME STATEMENT
for the year ended March 31, 2006

	2006			2005
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
REVENUES				
Fees, contributions and premiums (Note 3)	\$56 763 601	\$18 753 532	\$75 517 133	\$76 463 117
Interest	1 270 820	14 098 635	15 369 455	16 232 007
Other	2 414 697	15 757	2 430 454	1 583 093
Settlements and fines	2 735 707		2 735 707	390 299
	<u>63 184 825</u>	<u>32 867 924</u>	<u>96 052 749</u>	<u>94 668 516</u>
EXPENSES				
Salaries and fringe benefits	40 237 337	464 045	40 701 382	41 731 451
Occupancy expenses	4 085 265		4 085 265	4 779 456
Professional services	6 665 755		6 665 755	4 172 311
Supplies, documentation and maintenance	1 332 811		1 332 811	2 017 312
Travel, promotion and reception	1 209 553	16 919	1 226 472	1 489 349
Communications, information	562 903	212 657	775 560	1 085 308
Telecommunications	449 317		449 317	496 362
Contribution to the Bureau de décision et de révision en valeurs mobilières	1 362 589		1 362 589	3 496 676
Fees related to legislation	850 000		850 000	250 000
Other	2 049 780	23 666	2 073 446	2 215 730
Amortization of fixed assets	1 881 623		1 881 623	1 983 257
Amortization of intangible assets	902 146		902 146	599 703
Amortization of initial expenses	1 159 949		1 159 949	1 353 273
Administrative costs attributed to the Funds (Note 4)	(889 067)	516 890	(372 177)	(156 307)
	<u>61 859 961</u>	<u>1 234 177</u>	<u>63 094 138</u>	<u>65 513 881</u>
SURPLUS FOR THE YEAR BEFORE SUBSEQUENT ELEMENT	1 324 864	31 633 747	32 958 611	29 154 635
Used of Reserved Fund (Note 6)	<u>(1 002 257)</u>		<u>(1 002 257)</u>	<u>(414 762)</u>
SURPLUS FOR THE YEAR	<u>\$322 607</u>	<u>\$31 633 747</u>	<u>\$31 956 354</u>	<u>\$28 739 873</u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

SURPLUS STATEMENT
for the year ended March 31, 2006

	2006				2005	
	Current operations			Deposit Insurance Fund		
	Surplus	Contingency reserve	Reserved Fund	Unappropriated surplus	Total	Total
OPENING SURPLUS	\$13 845 134	\$33 529 869	\$14 207 238	\$312 702 532	\$374 284 773	\$345 544 900
Surplus for the year	322 607			31 633 747	31 956 354	28 739 873
Used of Reserved Fund (Note 6)	<u>1 002 257</u>		<u>(1 002 257)</u>			
CLOSING SURPLUS	<u>\$15 169 998</u>	<u>\$33 529 869</u>	<u>\$13 204 981</u>	<u>\$344 336 279</u>	<u>\$406 241 127</u>	<u>\$374 284 773</u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

BALANCE SHEET

	As at March 31, 2006			As at March 31, 2005
	Current operations	Deposit Insurance Fund	Total	Total
ASSETS				
Current assets				
Cash on hand	\$3 505 044	\$1 441	\$3 506 485	\$2 319 996
Short-term investments (Note 8)	57 965 648	345 680 714	403 646 362	369 101 350
Accounts receivable (Note 9)	14 827 228	335	14 827 563	5 086 235
Receivable – Deposit Insurance Fund	101 900			
Interest receivable	679 361	1 509 979	2 189 340	1 792 147
Prepaid expenses	503 149	1 443	504 592	626 568
	<u>77 582 330</u>	<u>347 193 912</u>	<u>424 674 342</u>	<u>378 926 296</u>
Accounts receivable (Note 9)	1 017 258		1 017 258	1 105 866
Fixed assets (Note 10)	7 777 266		7 777 266	9 246 512
Intangible assets (Note 11)	1 673 126		1 673 126	2 289 838
Start-up costs (Note 12)	<u>3 286 520</u>		<u>3 286 520</u>	<u>4 446 469</u>
	<u>\$91 336 500</u>	<u>\$347 193 912</u>	<u>\$438 428 512</u>	<u>\$396 014 981</u>

AUTORITÉ DES MARCHÉS FINANCIERS

BALANCE SHEET (cont'd)

	As at March 31, 2006			As at March 31, 2005
	Current operations	Deposit Insurance Fund	Total	Total
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses (Note 13)	\$10 448 736	\$187 909	\$10 636 645	\$5 532 299
Payable – Current operations		101 900		
Refundable fees and contributions	827 015		827 015	475 601
Provision for vacation time, sick leave and severance pay (Note 14)	4 181 479		4 181 479	2 689 998
Deferred income	7 097 526	1 567 824	8 665 350	6 139 938
	<u>22 554 756</u>	<u>1 857 633</u>	<u>24 310 489</u>	<u>14 837 836</u>
Long-term portion of the provision for vacation time, sick leave and severance pay (Note 14)	6 876 896		6 876 896	5 892 372
	<u>29 431 652</u>	<u>1 857 633</u>	<u>31 187 385</u>	<u>20 730 208</u>
NET EQUITY				
Gouvernement du Québec contribution	-----	1 000 000	1 000 000	1 000 000
Surplus				
Surplus	15 169 998	344 336 279	359 506 277	326 547 666
Contingency reserve (Note 15)	33 529 869		33 529 869	33 529 869
Reserved Fund (Note 6)	13 204 981		13 204 981	14 207 238
	<u>61 904 848</u>	<u>344 336 279</u>	<u>406 241 127</u>	<u>374 284 773</u>
	<u>61 904 848</u>	<u>345 336 279</u>	<u>407 241 127</u>	<u>375 284 773</u>
	<u>\$91 336 500</u>	<u>\$347 193 912</u>	<u>\$438 428 512</u>	<u>\$396 014 981</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

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006			2005
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
OPERATING ACTIVITIES				
Surplus for the year	\$322 607	\$31 633 747	\$31 956 354	\$28 739 873
Elements without impact on cash flows				
Amortization of fixed assets	1 881 623		1 881 623	1 983 257
Amortization of intangible assets	902 146		902 146	599 703
Amortization of initial expenses	1 159 949		1 159 949	1 353 273
(Gain) Loss on disposal of fixed assets	(6 106)		(6 106)	50 576
	<u>4 260 219</u>	<u>31 633 747</u>	<u>35 893 966</u>	<u>32 726 682</u>
Variation in non-cash elements related to operations				
Accounts receivable	(9 655 048)	2 328	(9 652 720)	(376 626)
Receivable – Deposit Insurance Fund	150 077			
Interest receivable	(141 294)	(255 899)	(397 193)	147 087
Prepaid expenses	121 872	104	121 976	(181 923)
Accounts payable and accrued expenses	5 386 250	152 750	5 539 000	(4 888 930)
Payable – Current operations		(150 077)		
Refundable fees and contributions	351 414		351 414	(362 029)
Provision for vacation time, sick leave and severance pay	2 476 005		2 476 005	1 569 697
Deferred income	2 355 393	170 019	2 525 412	(2 969 326)
	<u>1 044 669</u>	<u>(80 775)</u>	<u>963 894</u>	<u>(7 062 050)</u>
Cash flows related to operating activities	<u>5 304 888</u>	<u>31 552 972</u>	<u>36 857 860</u>	<u>25 664 632</u>
INVESTMENT ACTIVITIES				
Acquisition of investments	(52 908 573)	(31 331 537)	(84 240 110)	(127 358 157)
Proceed from the disposal of investments	48 886 523		48 886 523	109 369 581
Acquisition of fixed assets (Note 19)	(712 711)		(712 711)	(5 715 406)
Proceeds from the disposal of fixed assets	18 387		18 387	73 503
Acquisition of intangible assets (Note 19)	(432 035)		(432 035)	(2 051 511)
Start-up costs				(761 594)
Cash flows related to investment activities	<u>(5 148 409)</u>	<u>(31 331 537)</u>	<u>(36 479 946)</u>	<u>(26 443 584)</u>
NET VARIATION IN CASH AND CASH EQUIVALENTS	156 479	221 435	377 914	(778 952)
OPENING CASH AND CASH EQUIVALENTS	<u>3 348 565</u>	<u>36 844</u>	<u>3 385 409</u>	<u>4 164 361</u>
CLOSING CASH AND CASH EQUIVALENTS	<u>\$3 505 044</u>	<u>\$258 279</u>	<u>\$3 763 323</u>	<u>\$3 385 409</u>

AUTORITÉ DES MARCHÉS FINANCIERSCASH FLOW STATEMENT (cont'd)
for the year ended March 31, 2006

Closing cash and cash equivalents include:

	2006			2005
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
Cash	\$3 505 044	\$1 441	\$3 506 485	\$2 319 996
Short-term investments		256 838	256 838	1 065 413
	<u>\$3 505 044</u>	<u>\$258 279</u>	<u>\$3 763 323</u>	<u>\$3 385 409</u>

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND MISSION

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

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

The mission of the Authority is to:

- provide assistance to consumers of financial products and services, in particular by setting up consumer-oriented educational programs on financial products and services, processing complaints filed by consumers and giving consumers access to dispute-resolution services;
- ensure that the financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law with a view to protecting the interests of consumers of financial products and services, and take any measure provided by law for those purposes;
- supervise the activities connected with the distribution of financial products and services, administer the rules governing eligibility for and the carrying on of those activities, and take any measure provided by law for those purposes;
- supervise stock market and clearing house activities and monitor the securities market, in particular, by administering the controls provided by law as regards access to the public capital market, ensuring that the issuers and other practitioners involved in the financial sector comply with the obligations imposed on them by law and taking any measure provided by law for those purposes;
- see to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

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

- govern the soliciting and receiving of deposits of money from the public;
- guarantee to every person who makes a deposit of money with a registered institution or a bank the payment, on their respective maturity dates, of the principal and interest of the deposit, up to \$100 000;
- guarantee payment of deposits of money to the extent and in the manner prescribed in this Act and the regulations;
- to manage a deposit insurance fund;
- to administer a system of permits

Under this Act:

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

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

1. CONSTITUTION AND MISSION (cont'd)

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

The Authority also administers a financial services compensation fund called the Fonds d'indemnisation des services financiers, created under section 258 of the Act respecting the distribution of financial products and services as amended by section 424 of the Act respecting the Autorité des marchés financiers. This fund shall be assigned to the payment of indemnities payable to victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible. Under section 274 of the Act respecting the distribution of financial products and services, the Authority shall keep separate books and the assets of the fund are not part of the assets of the Authority. The financial statements of the Fonds d'indemnisation des services financiers are presented in Note 21.

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 statutes are slated for the payment of expenses related to administering these laws. Since the amounts slated for administering these statutes cannot reasonably be obtained, this information is not presented.

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 2005, the Authority collected contributions of \$8 288 436 and remitted \$8 295 573 to the Chambre de la sécurité financier and collected contributions of \$4 098 309 and remitted \$3 686 439 to the Chambre de l'assurance de dommages.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Short-term investments

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

Fixed assets

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

Computer hardware	3 years
Office furniture and equipment and 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 using the straight-line method over a 3-year service life.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Initial expenses

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

Income reporting

Income from dues and premiums

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

Income from administrative sanctions

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

Income other than dues, premiums and administrative sanctions

Income other than dues, premiums and administrative sanctions is recorded when the supply is delivered or the service is dispensed.

Provision for Deposit Insurance Fund losses

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

Pension plans

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

Cash and cash equivalents

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

3. FEES, CONTRIBUTIONS AND PREMIUMS

	2006		2005
	Current operations	Deposit Insurance Fund (12 months) Total	(14 months) Total
Securities Act ¹	\$35 238 209		\$34 547 013
Act respecting the distribution of financial products and services	10 777 087		11 845 092
Act respecting insurance	6 840 985		6 971 900
Amounts carried forward	<u>\$52 856 281</u>	<u></u>	<u>\$53 364 005</u>

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. FEES, CONTRIBUTIONS AND PREMIUMS (cont'd)**

	2006		2005	
	Current operations	Deposit Insurance Fund	(12 months) Total	(14 months) Total
Amounts brought forward	\$52 856 281		\$52 856 281	\$53 364 005
Act respecting trust companies and savings companies	1 044 281		1 044 281	1 029 317
Act respecting financial services cooperatives	2 680 641		2 680 641	2 616 790
Act respecting the Mouvement Desjardins	182 398		182 398	30 843
Deposit Insurance Act		\$18 753 532	18 753 532	19 422 162
	\$56 763 601	\$18 753 532	\$75 517 133	\$76 463 117

- 1 Section 271.12 of the Regulation respecting securities provides 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 (\$6 165 040 in 2005).

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 Autorité des marchés financiers charged them \$516 890 (\$610 858 in 2005) and \$372 177 (\$156 307 in 2005) respectively for the use of these resources. These operations were concluded in the normal course of activities and measured at exchange value, which corresponds to the best estimate of costs. At March 31, 2006, the Deposit Insurance Fund and the Fonds d'indemnisation des services financiers owed \$36 930 (\$43 633 in 2005) and \$260 349 (\$11 165 in 2005) respectively for these services.

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 follows:

	2006 (12 months)	2005 (14 months)
Opening balance	\$312 702 532	\$280 051 075
Surplus for the year	<u>31 633 747</u>	<u>32 651 457</u>
Closing balance	<u>\$344 336 279</u>	<u>\$312 702 532</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:

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

6. RESERVED FUND (cont'd)

	2006 (12 months)	2005 (14 months)
Opening balance	\$14 207 238	\$14 622 000
Used of Reserved Fund:		
Investment income	433 823	217 027
Payment of contributions	(1 321 110)	(542 355)
Salaries and fringe benefits	(110 738)	(75 344)
Other	(4 232)	(14 090)
	<u>(1 002 257)</u>	<u>(414 762)</u>
Closing Balance	<u>\$13 204 981</u>	<u>\$14 207 238</u>

7. FINANCIAL INSTRUMENTS

The market value of participation deposit units in funds entrusted to the Caisse de dépôt et placement du Québec was \$370 195 770 at March 31, 2006 (\$342 259 713 in 2005). The market value of bankers' acceptances and bearers' term notes was \$15 315 553 and \$13 187 479 respectively at March 31, 2006 (\$10 716 658 and \$24 530 128 in 2005 for bankers' acceptances and commercial papers).

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

8. SHORT-TERM INVESTMENTS

	Current operations	Deposit Insurance Fund	March 31, 2006 Total	March 31, 2005
Funds entrusted to the Caisse de dépôt et placement du Québec				
Demand deposits	\$474 382	\$256 838	\$731 220	\$571 757
Term deposits	16 905 000		16 905 000	4 900 000
Participation deposits	<u>12 411 012</u>	<u>345 423 876</u>	<u>357 834 888</u>	<u>328 807 243</u>
	<u>29 790 394</u>	<u>345 680 714</u>	<u>375 471 108</u>	<u>334 279 000</u>
Funds entrusted to other institutions				
Bankers' acceptances	15 166 455		15 166 455	10 700 000
Bearer term notes	12 999 999		12 999 999	
Commercial papers				24 113 550
Other	<u>8 800</u>	<u></u>	<u>8 800</u>	<u>8 800</u>
	<u>\$57 965 648</u>	<u>\$345 680 714</u>	<u>\$403 646 362</u>	<u>\$369 101 350</u>

Demand deposits, term deposits, bankers' acceptances and bearers' term notes bear interest at rates varying between 2.80% and 4.17%, maturing on different dates until March 2007.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**9. ACCOUNTS RECEIVABLE**

	Current operations	Deposit Insurance Fund	March 31, 2006 Total	March 31, 2005 Total
Short-term portion				
Fees, contributions and premiums	\$14 347 836		\$14 347 836	\$4 307 119
Fonds d'indemnisation des services financiers	209 895		209 895	254 348
Other	20 813	\$335	21 148	268 191
Gouvernement du Québec receivable				
Conseil du trésor	227 608		227 608	227 608
Registraire des entreprises	21 076		21 076	28 969
	<u>14 827 228</u>	<u>335</u>	<u>14 827 563</u>	<u>5 086 235</u>
Long-term portion				
Other	139 000		139 000	
Gouvernement du Québec receivable				
Conseil du trésor	878 258		878 258	1 105 866
	<u>1 017 258</u>		<u>1 017 258</u>	<u>1 105 866</u>
	<u>\$15 844 486</u>	<u>\$335</u>	<u>\$15 844 821</u>	<u>\$6 192 101</u>

10. FIXED ASSETS

	March 31, 2006		March 31, 2005
	Cost	Accumulated depreciation	Net value
Leasehold improvements – equipment	\$363 251	\$206 924	\$156 327
Leasehold improvements – layout	6 805 597	1 803 883	5 001 714
Office furniture and equipment	5 872 511	3 868 538	2 003 973
Computer hardware	3 600 294	2 985 042	615 252
	<u>\$16 641 653</u>	<u>\$8 864 387</u>	<u>\$7 777 266</u>
			<u>\$9 246 512</u>

11. INTANGIBLE ASSETS

	March 31, 2006		March 31, 2005
	Cost	Accumulated depreciation	Net value
Software	\$2 000 062	\$1 751 751	\$248 311
Computer systems development	3 586 225	2 161 410	1 424 815
	<u>\$5 586 287</u>	<u>\$3 913 161</u>	<u>\$1 673 126</u>
			<u>\$2 289 838</u>

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

12. START-UP COSTS

	March 31, 2006		March 31, 2005
	Cost	Accumulated depreciation	Net value
Start-up costs	<u>\$5 799 742</u>	<u>\$2 513 222</u>	<u>\$3 286 520</u>
			<u>\$4 446 469</u>

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Current operations	Deposit Insurance Fund	March 31, 2006	March 31, 2005
Accounts payable and accrued expenses	\$9 596 706	\$187 909	\$9 784 615	\$4 983 844
Owing to the Gouvernement du Québec				
Ministère des Finances	<u>852 030</u>		<u>852 030</u>	<u>548 455</u>
	<u>\$10 448 736</u>	<u>\$187 909</u>	<u>\$10 636 645</u>	<u>\$5 532 299</u>

14. FUTURE FRINGE BENEFITS

Pension plans

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

The Authority's contributions posted to the results of the fiscal year totalled \$1 668 057 (\$1 169 548 in 2005). Its obligations towards these government plans are restricted to its employer contributions.

Provision for vacation time, sick leave and severance pay

	March 31, 2006	March 31, 2005
Provision for vacation time		
Opening balance	\$3 476 976	\$2 804 633
Expenditure for the year	2 826 574	3 004 072
Benefits paid during the year	<u>(2 379 325)</u>	<u>(2 331 729)</u>
Closing balance	<u>3 924 225</u>	<u>3 476 976</u>
Provision for sick leave		
Opening balance	5 105 394	4 208 040
Expenditure for the year	1 291 084	1 677 562
Benefits paid during the year	<u>(858 156)</u>	<u>(780 208)</u>
Closing balance	<u>5 538 322</u>	<u>5 105 394</u>
Amounts carried forward	<u>\$9 462 547</u>	<u>\$8 582 370</u>

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**14. FUTURE FRINGE BENEFITS (cont'd)****Provision for vacation time, sick leave and severance pay (cont'd)**

	March 31, 2006	March 31, 2005
Amounts brought forward	\$9 462 547	\$8 582 370
Provision for severance pay	1 595 828	
Provision for vacation time, sick leave and severance pay	11 058 375	8 582 370
Long-term portion	(6 876 896)	(5 892 372)
	<u>\$4 181 479</u>	<u>\$2 689 998</u>

15. CONTINGENCY RESERVE

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

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, 2005 by the Deposit Insurance Fund totalled \$66.4 billion (\$57.4 billion in 2004), \$11.3 billion (\$10.2 billion in 2004) 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 committed, under rental contracts ending on different dates until 2019, to paying office rental expenses of \$49 243 973. The minimum payments required for the next five years totalled \$4 201 829 in 2006-2007, \$4 249 709 in 2007-2008, \$4 340 776 in 2008-2009, \$4 385 407 in 2009-2010, \$4 401 664 in 2010-2011 and \$27 664 588 for fiscal 2011-2012 and thereafter.

Commitments related to contributions to the Investor education and governance promotion fund are \$738 190 for fiscal 2006-2007 and \$440 000 for fiscal 2007-2008.

18. CONTINGENCIES

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

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

19. ADDITIONAL CASH FLOW INFORMATION

Over the fiscal year, fixed assets totalling \$424 658 (\$6 101 429 in 2005) were acquired, \$97 970 (\$386 023 in 2005) of which are included in accounts payable at March 31, 2006. Outpayments totalling \$712 711 (\$5 715 406 in 2005) were made for the purchase of fixed assets. During the fiscal year, intangible assets were also acquired at a total cost of \$285 434 (\$2 198 112 in 2005), but none of this amount (\$146 601 in 2005) is included in accounts payable at March 31, 2006. Outpayments totalling \$432 035 (\$2 051 511 in 2005) 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

Income statement

for the year ended March 31, 2006

	2006 (12 months)	2005 (14 months)
Revenues		
Contributions	\$2 412 164	\$2 410 288
Interest	153 944	231 792
Subrogation revenue	160 521	42 283
	<u>2 726 629</u>	<u>2 684 363</u>
Expenses		
Compensation (Note I)	16 123 246	1 339 475
Salaries and fringe benefits	677 172	610 238
Travel expenses	4 068	3 638
Communications, information		(3 720)
Professional services	175 767	213 367
Administrative expenses (Note C)	372 177	156 307
Other	6 956	30 373
	<u>17 359 386</u>	<u>2 349 678</u>
Surplus (insufficiency) of revenues over expenses	<u><u>\$(14 632 757)</u></u>	<u><u>\$334 685</u></u>

Changes in fund balances statement

for the year ended March 31, 2006

	2006	2005
Opening balance	\$(3 817 437)	\$(4 152 122)
Surplus (insufficiency) of revenues over expenses	<u>(14 632 757)</u>	<u>334 685</u>
Closing balance (Note D)	<u><u>\$(18 450 194)</u></u>	<u><u>\$(3 817 437)</u></u>

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

March 31, 2006

	March 31, 2006	March 31, 2005
ASSETS		
Current assets		
Cash on hands	\$1 171	\$44 528
Investments (Note F)	4 947 000	6 878 793
Accounts receivable (Note G)	351 606	240 492
Prepaid expenses	8 502	7 671
	<u>5 308 279</u>	<u>7 171 484</u>
Notes receivable in subrogation, without interest, maturing in 2013	<u>41 293</u>	<u>29 300</u>
	<u><u>\$5 349 572</u></u>	<u><u>\$7 200 784</u></u>
LIABILITIES		
Current liabilities		
Accounts payable (Note H)	\$287 341	\$483 101
Provision for compensation (Note I)	21 116 000	9 509 211
Deferred income	2 396 425	1 025 909
	<u>23 799 766</u>	<u>11 018 221</u>
FUND BALANCES (Note D)	<u>(18 450 194)</u>	<u>(3 817 437)</u>
	<u><u>\$5 349 572</u></u>	<u><u>\$7 200 784</u></u>

CONTINGENCIES (Note J)

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 Québec government. This fund took over corresponding funds created under the Act respecting market intermediaries as at October 1, 1999.

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

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 the victims of fraud, fraudulent tactics or embezzlement for which a firm, independent representative or an independent company may be held liable in connection with its activities. It is also responsible for taking over claims on file with the former funds and deciding whether claims resulting from acts committed between September 1, 1991 and September 30, 1999 are eligible for payment in accordance with the regulations under the Act respecting market intermediaries.

B - ACCOUNTINGS POLICIES

Preparation of the Agence's financial statements by management, in keeping with the accounting principles that are generally recognized in Canada, require the use of estimates and assumptions. The latter affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 or market value, whichever is less.

Income reporting

Income from dues

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

Subrogation income

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

C - ADMINISTRATIVE EXPENSES

The Autorité des marchés financiers made human resources, fixed assets and office space available to the Fonds d'indemnisation des services financiers. During the fiscal year, the Autorité des marchés financiers charged \$372 177 (\$156 307 in 2005) for the use of these resources. These operations were concluded in the normal course of activities and measured at exchange value, which corresponds to the best estimate of costs. At March 31, 2006, the Fonds d'indemnisation des services financiers owed \$260 349 (\$11 165 in 2005) for these services.

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**21. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)****D - FUND BALANCE**

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

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, 2006	March 31, 2005
Term deposits, bearing interest at rate of 4.03%, maturing in March 2007	<u>\$4 947 000</u>	<u>\$6 878 793</u>

G - ACCOUNTS RECEIVABLE

	March 31, 2006	March 31, 2005
Contributions receivable	\$326 344	\$141 340
Other	25 262	37 749
Accrued interest		61 403
	<u>\$351 606</u>	<u>\$240 492</u>

H - ACCOUNTS PAYABLE

	March 31, 2006	March 31, 2005
Supplier accounts and accrued expenses	\$77 446	\$228 753
Autorité des marchés financiers (current operations)	209 895	254 348
	<u>\$287 341</u>	<u>\$483 101</u>

AUTORITÉ DES MARCHÉS FINANCIERSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**21. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)****I - COMPENSATION AND PROVISION FOR COMPENSATION**

The amount of the provisions for compensation related to reported and unreported disasters, established by the actuaries mandated by the Authority, is based on 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, 2006	March 31, 2005
Opening balance	\$9 509 211	\$10 314 944
Expenses for the fiscal year	16 123 246	1 339 475
Claims settled during the year	<u>(4 516 457)</u>	<u>(2 145 208)</u>
Closing balance	<u>\$21 116 000</u>	<u>\$9 509 211</u>

J - CONTINGENCIES

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

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

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the Authority.

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

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

Jean St-Gelais
President-Chief Executive Officer

Linda Levasseur
Director General, Administration

Québec, June 14, 2006

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, 2006 and the income statement, surplus statement and cash flow statement of Autorité des marchés financiers and the income statement and changes in fund balances statement of Fonds d'indemnisation des services financiers for the year ended March 31, 2006. These financial statements are the responsibility of Authority management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Autorité des marchés financiers and the Fonds d'indemnisation des services financiers as at and March 31, 2006 and the results of their operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Compliance with certain legislation administered by the Autorité des marchés financiers

As mentioned in Note 1, in keeping with 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 Autorité des marchés financiers under each of these statutes must be slated for the payment of expenses related to administering these laws. However, the Autorité des marchés financiers does not possess the financial information enabling it to ensure that these sections of the statutes are respected.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 14, 2006

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC
(R.S.Q., s. 2-2 amended by Chapter 25 of the 2004 statutes)

INCOME STATEMENT
for the year ended March 31, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
REVENUES					
Gouvernement du Québec					
subsidies					
Operations	\$35 367 900			\$35 367 900	\$28 308 115
Other subsidies	61 604	\$9 231		70 835	45 522
Interest on long-term debt		2 305 293	\$5 909 653	8 214 946	2 504 666
Amortization of deferred subsidies (Note 16)	49 629	4 650 408	9 797 175	14 497 212	12 121 312
Ville de Montréal financial contribution (Note 9)	6 775 039			6 775 039	1 706 612
Ministère de l'Emploi, de la Solidarité sociale et de la Famille financial contribution (Note 22)					50 494
Federal government financial contribution	223 530			223 530	
Sponsorship income	513			513	212 000
Donations to the heritage collection and other	723 044			723 044	415 555
Sale of goods and services	1 079 924		258 373	1 338 297	338 547
Interest on bank deposits	494 257		169 910	664 167	297 976
	<u>44 775 440</u>	<u>6 964 932</u>	<u>16 135 111</u>	<u>67 875 483</u>	<u>46 000 799</u>
EXPENSES					
Salaries and fringe benefits	26 412 296	260 157	964 224	27 636 677	17 424 264
Professional, administrative and other services	8 193 090	229 027	1 028 710	9 450 827	8 383 396
Rent	955 277		800	956 077	1 247 095
Transportation and communications	1 637 961	166	2 202	1 640 329	964 805
Supplies	1 808 526	236 315	990 289	3 035 130	2 133 026
Loss on sale of assets	3 690	13 732	146 671	164 093	229 043
Financial expenses (Note 17)	49 192	2 379 865	6 418 414	8 847 471	3 074 953
Doubtful accounts	371			371	
Depreciation of fixed assets	740 257	3 845 670	6 853 093	11 439 020	1 872 175
Amortization of the participation in a television production	50 000			50 000	25 000
	<u>39 850 660</u>	<u>6 964 932</u>	<u>16 404 403</u>	<u>63 219 995</u>	<u>35 353 757</u>
Heritage collection (Note 5)					
Donations	720 214			720 214	415 555
Purchases	517 576			517 576	5 011 818
	<u>41 088 450</u>	<u>6 964 932</u>	<u>16 404 403</u>	<u>64 457 785</u>	<u>40 781 130</u>
EXCESS REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	<u>\$3 686 990</u>		<u>\$(269 292)</u>	<u>\$3 417 698</u>	<u>\$5 219 669</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, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
OPENING BALANCE OF NET ASSETS	\$9 172 787	\$2 448 057	\$9 878 113	\$21 498 957	\$16 279 288
Excess revenue over expenditure (expenditure over revenue)	3 686 990		(269 292)	3 417 698	5 219 669
CLOSING BALANCE OF NET ASSETS	<u>\$12 859 777</u>	<u>\$2 448 057</u>	<u>\$9 608 821</u>	<u>\$24 916 655</u>	<u>\$21 498 957</u>
Net assets invested in fixed assets		\$2 448 057	\$9 878 113	\$12 326 170	\$12 201 170
Net assets used for a television production under an in-house appropriation	\$75 000			75 000	125 000
Unappropriated net assets	12 784 777			12 784 777	9 172 787
Operating deficit			(269 292)	(269 292)	
CLOSING BALANCE OF NET ASSETS	<u>\$12 859 777</u>	<u>\$2 448 057</u>	<u>\$9 608 821</u>	<u>\$24 916 655</u>	<u>\$21 498 957</u>

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
ASSETS					
Current assets					
Cash and cash equivalents (Note 6)	\$17 595 190	\$1 433 829	\$4 249 734	\$23 278 753	\$19 257 811
Gouvernement du Québec subsidies receivable (Note 7)	2 146 700	5 464 922	8 059 762	15 671 384	5 527 153
Accounts receivable (Note 8)	4 348 539	3 139	167 694	4 519 372	2 329 480
Interfund accounts receivable, interest-free, no terms of repayment			1 074 217		
Prepaid assets	572 807		421 037	993 844	842 329
	<u>24 663 236</u>	<u>6 901 890</u>	<u>13 972 444</u>	<u>44 463 353</u>	<u>27 956 773</u>
Long-term assets					
Deferred discount and long-term debt issuing charges		257 692	929 988	1 187 680	318 320
Gouvernement du Québec subsidies receivable (Note 7)		40 190 134	139 968 647	180 158 781	172 654 238
Fixed assets (Note 11)	2 931 481	42 248 895	128 695 874	173 876 250	170 392 345
Participation in a television production (Note 12)	75 000			75 000	125 000
	<u>\$27 669 717</u>	<u>\$89 598 611</u>	<u>\$283 566 953</u>	<u>\$399 761 064</u>	<u>\$371 446 676</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
LIABILITIES					
Current liabilities					
Accounts payable and accruals	\$7 318 923	\$778 528	\$6 618 660	\$14 716 111	\$17 824 204
Short-term borrowings (Note 13)		2 768 383	9 212 897	11 981 280	131 662 371
Interest payable		1 084 445	2 268 010	3 352 455	1 490 255
Provision for vacation time	2 545 584	27 775		2 573 359	1 515 122
Interfund accounts receivable, interest-free, no terms of repayment	978 457	95 760			
Instalments on long-term debt (Note 14)		4 376 697	5 823 933	10 200 630	4 333 293
	<u>10 842 964</u>	<u>9 131 588</u>	<u>23 923 500</u>	<u>42 823 835</u>	<u>156 825 245</u>
Long-term liabilities					
Provision for sick leave (Note 15)	3 696 470	2 457		3 698 927	1 875 312
Deferred revenue	144 000			144 000	160 000
Deferred Gouvernement du Québec subsidies (Note 16)	126 506	41 560 555	112 555 569	154 242 630	150 905 568
Long-term debt (Note 14)		36 455 954	137 479 063	173 935 017	40 181 594
	<u>14 809 940</u>	<u>87 150 554</u>	<u>273 958 132</u>	<u>374 844 409</u>	<u>349 947 719</u>
NET ASSETS	<u>12 859 777</u>	<u>2 448 057</u>	<u>9 608 821</u>	<u>24 916 655</u>	<u>21 498 957</u>
	<u>\$27 669 717</u>	<u>\$89 598 611</u>	<u>\$283 566 953</u>	<u>\$399 761 064</u>	<u>\$371 446 676</u>

COMMITMENTS (Note 19)

CONTINGENCIES (Note 20)

MERGER WITH THE ARCHIVES NATIONALES DU QUÉBEC (Note 2)

The notes are an integral part of these financial statements.

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

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
OPERATING ACTIVITIES					
Excess revenues over expenses (expenses over revenues)	\$3 686 990		\$(269 292)	\$3 417 698	\$5 219 669
Adjustments for:					
Loss of sale of assets	3 690	\$13 732	146 671	164 093	229 042
Depreciation of fixed assets and participation in a television production	790 257	3 845 670	6 853 093	11 489 020	1 897 175
Amortization of deferred subsidies	(49 629)	(4 650 408)	(9 797 175)	(14 497 212)	(12 121 312)
Amortization of deferred discount and long-term debt issuing charges		65 186	81 073	146 259	64 769
	<u>4 431 308</u>	<u>(725 820)</u>	<u>(2 985 630)</u>	<u>719 858</u>	<u>(4 710 657)</u>
Change in non-cash elements					
Accounts receivable	(2 204 276)	156 861	(142 477)	(2 189 892)	(1 822 784)
Subsidies receivable	(2 026 701)	4 447 994	(2 235 829)	185 464	4 357 460
Prepaid expenses	(166 941)		15 426	(151 515)	(569 730)
Accounts payable and accruals	3 234 267	850 726	(7 900 186)	(3 815 193)	12 233 410
Interest paid		(99 089)	1 961 289	1 862 200	595 795
Provision for vacation time	1 063 637	27 775	(33 175)	1 058 237	363 633
Provision for sick leave	1 825 428	2 457	(4 270)	1 823 615	127 007
Deferred revenue	<u>144 000</u>	<u>(160 000)</u>		<u>(16 000)</u>	<u>160 000</u>
	<u>6 300 722</u>	<u>4 500 904</u>	<u>(11 324 852)</u>	<u>(523 226)</u>	<u>10 734 134</u>
INVESTMENT ACTIVITIES					
(Note 21)					
Change in short-term investments					1 250 903
Purchase of fixed assets	(1 923 574)	(2 907 712)	(9 548 596)	(14 379 882)	(83 554 673)
Participation in a television production	(125 000)	125 000			
Deposit on acquisition of fixed assets					<u>35 000 000</u>
	<u>(2 048 574)</u>	<u>(2 782 712)</u>	<u>(9 548 596)</u>	<u>(14 379 882)</u>	<u>(47 303 770)</u>
Amounts carried forward	<u>\$4 252 148</u>	<u>\$1 718 192</u>	<u>\$(20 873 448)</u>	<u>\$(14 903 108)</u>	<u>\$(36 569 636)</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

CASH FLOW STATEMENT (cont'd)
for the year ended March 31, 2006

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
Amounts brought forward	\$4 252 148	\$1 718 192	\$(20 873 448)	\$(14 903 108)	\$(36 569 636)
FINANCING ACTIVITIES					
(Decrease) Increase in short-term borrowings		2 102 976	(121 784 067)	(119 681 091)	52 715 483
Increase in long-term debts		651 057	143 302 996	143 954 053	
Repayment of long-term debt		(4 333 293)		(4 333 293)	(4 333 293)
Increase in deferred discount and long-term debt issuing charges		(4 558)	(1 011 061)	(1 015 619)	
		(1 583 818)	20 507 868	18 924 050	48 382 190
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	4 252 148	134 374	(365 580)	4 020 942	11 812 554
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR					
	11 905 980		7 351 831	19 257 811	7 445 257
Change in interfund receivables	1 437 062	1 299 455	(2 736 517)		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 6)					
	\$17 595 190	\$1 433 829	\$4 249 734	\$23 278 753	\$19 257 811

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 FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Bibliothèque et Archives nationales du Québec (formerly the Bibliothèque nationale du Québec) was created by the Act respecting the Bibliothèque et Archives nationales du Québec (R.S.Q., s. 2-2 amended by Chapter 25 of the 2004 statutes). Its mission is to offer democratic access to culture and knowledge and to act as catalyst in relation to Québec documentary institutions. Its 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 mission of Bibliothèque et Archives nationales is also to guide, support and advise public bodies as regards 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 the legislation creating it, the Bibliothèque et Archives nationales is an agent of the State and, as such, does not pay income tax.

2. MERGER WITH ARCHIVES NATIONALES DU QUÉBEC

The merger of the Bibliothèque nationale du Québec and Archives nationales du Québec occurred on January 31, 2006 under the Act to amend the Act respecting the Bibliothèque nationale du Québec, the Archives Act and other legislative provisions (R.S.Q., c. 2.2 amended by Chapter 25 of the 2004 statutes).

Following this merger, the new institution acquired the rights and obligations of the Archives nationales du Québec. This transaction was measured at the net book value. The assets and liabilities acquired at this time are as follows:

Assets

Current assets

Accounts receivable	\$2 211 221
Gouvernement du Québec subsidy receivable	224 261

Long-term assets

Fixed assets	712 908

Liabilities

Current liabilities

Accounts payable	\$238 557
Provision for vacation time	598 719

Long-term liabilities

Accounts payable	474 350
Provision for sick leave	1 552 798

3. PURPOSE OF THE FUNDS

The Operating Fund discloses the Bibliothèque et Archives nationales du Québec's current operations. The Fund for activities funded through specific borrowings authorized by the government presents the assets, liabilities and operations related to government asset maintenance programs. The Start-up fund presents pre-requisite operations needed to open the distribution building to the public and results from the Québec government authorizations mentioned in Note 11. The revenues and expenses related to operating the parking lot from August 31, 2005 to March 31, 2006 were also posted to this fund.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

REVENUE REPORTING

Subsidies

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

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

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

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.

Collections

Library documents are intended for lending or regular consultation and belong to fixed assets. Given their specific nature, heritage collection documents, described in Note 5, are not included under the definition of fixed assets and are not recorded in the balance sheet. Heritage documents purchased are charged to operations for the current fiscal year. Heritage documents acquired through donations, whose value is determined by experts and, when required, sanctioned by the Canadian Government's Canadian Cultural Property or 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 in determining their fair value.

Term deposits

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

Deferred discount and long-term debt issuing charges

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

Fixed assets

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

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

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**4. ACCOUNTING POLICIES (cont'd)**

REVENUE REPORTING (cont'd)

Pension plans

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

Cash and cash equivalents

Bank balances and short-term investments maturing within three months of their acquisition date are presented as cash and cash equivalents.

5. HERITAGE COLLECTION

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

6. CASH AND CASH EQUIVALENTS

	2006				2005
	General Fund	Funds for activities funded through specific borrowings	Start-up Fund	Total	Total
Cash on hand	\$2 657 530	\$1 433 829	\$1 259 844	\$5 351 203	\$7 284 962
Short-term investments maturing within three months of their acquisition date	14 937 660		2 989 890	17 927 550	11 972 849
	<u>\$17 595 190</u>	<u>\$1 433 829</u>	<u>\$4 249 734</u>	<u>\$23 278 753</u>	<u>\$19 257 811</u>

Short-term investments comprise term deposits.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

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

8. ACCOUNTS RECEIVABLE

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
Montréal City	\$1 390 083			\$1 390 083	\$1 706 612
Minister of Emploi, de la Solidarité sociale et de la Famille					251 175
Other accounts	2 958 456	\$3 139	\$167 694	3 129 289	371 693
	<u>\$4 348 539</u>	<u>\$3 139</u>	<u>\$167 694</u>	<u>\$4 519 372</u>	<u>\$2 329 480</u>

9. VILLE DE MONTRÉAL FINANCIAL CONTRIBUTION

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

The Ville de Montréal will make a financial contribution of \$7 million indexed annually to Bibliothèque et Archives nationales operations. This agreement runs 5 years. For the fiscal year ending March 31, 2006 a prorated amount of \$6 775 039 was calculated and recorded as the Ville de Montréal's financial contribution.

10. INTERFUND CONTRIBUTIONS

Since the fiscal year ended March 31, 2006, the use of a fund funded through specific government borrowings to replace the fixed assets fund no longer requires interfund contributions since the fixed assets are reported in the fund in which the acquisitions were made. For the fiscal year ending March 31, 2005, \$1 249 297 was posted to the operating fund rather than the fixed assets fund.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

11. FIXED ASSETS

		2006				2005		
		FUND FOR ACTIVITIES FUNDED THROUGH SPECIFIC BORROWINGS						
		OPERATING						
	Service life	Cost	Accu- mulated depreciation	Net value	Cost	Accu- mulated depreciation	Net value	Net value
Fixed assets								
Land					\$994 000		\$994 000	\$994 000
Property improvements	10 years	\$1 536	\$113	\$1 423	6 325	\$1 387	4 938	5 570
Building	40 years	70 884	2 500	68 384	11 693 829	1 397 473	10 296 356	10 649 334
Building improvements	20 years	33 456	2 342	31 114	332 244	23 638	308 606	176 083
Office furniture and equipment	10 years	1 319 144	558 259	760 885	1 072 839	507 267	565 572	1 339 557
Data processing and telecommunications equipment	3 to 10 years	1 925 091	795 589	1 129 502	1 593 269	836 301	756 968	915 949
and software								
Other equipment	5 years	699 539	105 629	593 910	245 510	135 137	110 373	151 071
Rolling stock	5 years	2 354	727	1 627	32 484	7 405	25 079	31 576
Library documents	3 to 10 years	176 377	31 017	145 360	31 523 172	3 161 943	28 361 229	30 611 350
Bookbinding costs	3 to 10 years				168 143	925	167 218	
Sub-total		4 228 381	1 496 176	2 732 205	47 661 815	6 071 476	41 590 339	44 874 490
Intangible assets								
Software programs developed	5 years	283 746	84 470	199 276	684 124	25 568	658 556	165 677
Total		\$4 512 127	\$1 580 646	\$2 931 481	\$48 345 939	\$6 097 044	\$42 248 895	\$45 040 167

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. FIXED ASSETS (cont'd)**

		2006		2005
		Start-up Fund		
	Service life	Cost	Accumulated depreciation	Net value
Fixed assets				
Land		\$9 598 863		\$9 598 863
Building	40 years	80 957 274	\$1 945 425	79 011 849
Parking	40 years	7 661 780	127 430	7 534 350
Office furniture and equipment	10 years	5 081 612	561 687	4 519 925
Data processing and telecommunications equipment and software	3 to 10 years	5 230 393	1 577 401	3 652 992
Other equipment	5 years	2 049 006	384 140	1 664 866
Works of art		291 250		291 250
Library documents	3 to 10 years	16 240 424	1 530 544	14 709 880
Bookbinding costs	3 to 10 years	2 038 423	168 618	1 869 805
Sub-total		<u>129 149 025</u>	<u>6 295 245</u>	<u>122 853 780</u>
Software programs developed	5 years	6 968 185	1 508 080	5 460 105
Software programs in developing		381 989		381 989
Sub-total		<u>7 350 174</u>	<u>1 508 080</u>	<u>5 842 094</u>
Total		<u>\$136 499 199</u>	<u>\$7 803 325</u>	<u>\$128 695 874</u>

Total of fixed assets

		2006		2005
		Cost	Accumulated depreciation	Net value
Fixed assets		\$181 039 221	\$13 862 897	\$167 176 324
Intangible assets		8 318 044	1 618 118	6 699 926
Total		<u>\$189 357 265</u>	<u>\$15 481 015</u>	<u>\$173 876 250</u>

On January 19, 2000, the Gouvernement du Québec authorized the acquisition of the Palais du commerce site and the construction of a building measuring 33 000 square feet. The total estimated cost of this project was \$90 636 310. Under an Order-in-Council of November 6, 2002 and March 2, 2005, of this project's total estimated cost was increased to \$100 636 310 excluding short-term financing charges, which were capitalized for a cumulative amount of \$4 158 240 at March 31, 2006 (2005: \$4 118 911). The cumulated costs as at March 31, 2006 totalled \$103 577 844 and break down as follows:

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. FIXED ASSETS (cont'd)**

	2006		2005
	Cost	Short-term financing charges	Total costs
Land	\$9 349 715	\$249 148	\$9 598 863
Building	77 096 789	3 967 889	79 727 011
Office furniture and equipment	5 063 741	46 565	3 782 304
Other equipment	2 024 545	4 214	1 134 125
Data processing and telecommunication equipment and software	3 932 624	171 432	3 436 615
Works of art	291 250		279 250
Miscellaneous expenditures	1 350 782	29 150	876 691
	<u>\$99 109 446</u>	<u>\$4 468 398</u>	<u>\$103 577 844</u>
			<u>\$98 834 859</u>

On July 26, 2000, the Gouvernement du Québec authorized the construction of a 440-space parking lot. The total projected cost for the project was \$8 000 000 excluding short-term financing charges. Following the elimination of 40 parking spaces, the Bibliothèque et Archives nationales adjusted the expected project cost to \$7 359 500 excluding short-term financing costs, which were capitalized for an amount of \$529 040 at March 31, 2006 (2005: \$437 224). The cumulated costs at March 31, 2006 totalled \$7 829 493 and break down as follows:

	2006		2005
	Cost	Short-term financing charges	Total costs
Parking	\$7 132 741	\$688 431	\$7 821 172
Other equipment	8 321		8 321
	<u>\$7 141 062</u>	<u>\$688 431</u>	<u>\$7 829 493</u>
			<u>\$7 568 209</u>

On September 12, 2001, the Gouvernement du Québec authorized the acquisition of library documents and the computer and telecommunications developments required for the lending building to open. The maximum amount of borrowings authorized to finance the cost was \$17 200 000 for the documents and \$12 700 000 for the computer and telecommunications developments excluding short-term financing costs, which were capitalized for a cumulative amount of \$735 603 at March 31, 2006, (2005: \$526 788). The cumulated costs as at March 31, 2006 totalled \$26 998 231 and break down as follows:

	2006		2005
	Cost	Short-term financing charges	Total costs
Miscellaneous expenses	\$346 609	\$270 368	\$616 977
Data processing and telecommunication equipment and software	1 266 822	4 579	1 271 401
Software packages developed	6 860 894	107 291	6 968 185
Software packages in developing	277 062	104 927	381 989
Other equipment	9 244		9 244
Library documents	15 686 343	554 082	16 240 425
Membership	1 088 973		1 088 973
Prepaid expenses	421 037		421 037
	<u>\$25 956 984</u>	<u>\$1 041 247</u>	<u>\$26 998 231</u>
			<u>\$20 461 868</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. FIXED ASSETS (cont'd)**

On March 27, 2002, the Gouvernement du Québec authorized the processing of documents that the public could consult on-site or borrow. The maximum amount of short-term borrowings to finance the cost was \$14 100 000 excluding short-term financing charges, which were capitalized in their entirety for binding costs only. The cumulated costs at March 31, 2006, totalled \$14 549 777 and break down as follows:

	2006		2005
	Cost	Short-term financing charges	Total costs
Uncapitalizable document processing	\$12 114 143	\$390 317	\$12 504 460
Binding costs	1 978 962	59 460	2 038 422
Other equipment	6 895		6 895
	<u>\$14 100 000</u>	<u>\$449 777</u>	<u>\$14 549 777</u>
			<u>\$12 593 695</u>

12. PARTICIPATION IN A TELEVISION PRODUCTION

Bibliothèque et Archives nationales participates with Télé-Québec in a sponsorship project related to a television production on the Grand Bibliothèque. The amount related to this participation totals \$150 000 and covers two episodes. The cost of this participation will be amortized according to the number of broadcasts planned by episode. The episode was broadcast twice along with a 2nd episode, thereby resulting in accumulated depreciation of \$75 000.

13. SHORT-TERM BORROWINGS

Bibliothèque et Archives nationales borrows the amounts required to start up its operations in the lending building from the Gouvernement du Québec's Financing Fund, an entity under common control. The maximum authorized by the Gouvernement du Québec for short-term borrowings for this purpose is \$12 700 000 excluding short-term financing charges. Bibliothèque et Archives nationales is also authorized to contract short-term borrowings for the maintenance of its assets of up to \$7 998 695. The Gouvernement du Québec committed to paying Bibliothèque et Archives nationales the amounts needed to supplement payment of its obligations should it not be able to meet them for one of its short-term borrowings. The credit lines bear interest at the average rate of one-month bank acceptances plus 0.3%. At March 31, the credit line interest rate was 4.17143% and the credit line broke down as follows:

	2006	2005
Start-up Fund		
Start-up of operations in lending building:		
Land, construction of building and acquisition of equipment and furniture		\$93 913 256
Construction of parking lot		7 499 318
Acquisition of library documents		10 959 717
Computer and telecommunications development	\$9 212 897	7 153 329
Library document processing		11 471 344
	<u>9 212 897</u>	<u>130 996 964</u>
Fund for activities funded through specific borrowings		
Asset maintenance	<u>2 768 383</u>	<u>665 407</u>
	<u>\$11 981 280</u>	<u>\$131 662 371</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
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 4.116%), repayable in annual instalments of \$685 916 until October 1, 2006 and a final instalment of \$10 288 740 on October 1, 2007	\$10 974 656	\$11 660 572
6.5% (effective rate of 4.166%), repayable in annual instalments of \$26 593 until October 1, 2006 and a final instalment of \$132 967 on October 1, 2007	159 560	186 153
6.296% (effective rate of 4.369%), repayable in annual instalments of \$27 036 until June 28, 2009 and a final instalment of \$189 251 on June 28, 2010, guaranteed by a real estate mortgage without dispossession	297 395	324 431
5.169% (effective rate of 4,599%), repayable in annual instalments of \$69 075 until October 1, 2013	552 601	621 676
4.932% (effective rate of 4,599%), repayable in annual instalments of \$3 524 673 until October 1, 2013	28 197 382	31 722 055
4.816% (effective rate of 4,733%), repayable in annual instalments of \$43 404 until December 1, 2014 and an instalment of \$260 423 on December 1, 2015	<u>651 057</u>	
Sub-total	<u>40 832 651</u>	<u>44 514 887</u>
Start-up Fund		
4.816% (effective rate of 4,733%), repayable in annual instalments of \$1 465 234 until December 1, 2015	14 652 344	
4.816% (effective rate of 4,733%), repayable in annual instalments of \$2 570 775 until December 1, 2014 and an instalment of \$79 694 018 on December 1, 2015	102 830 991	
4.2739% (effective rate of 4,733%), repayable in annual instalments of \$1 787 924 until December 1, 2015	17 879 236	
4.926% (effective rate of 4,799%), repayable in annual instalments of \$317 617 until April 1, 2031	<u>7 940 425</u>	
Sub-total	<u>143 302 996</u>	
Total	184 135 647	44 514 887
Instalments due within one year	<u>(10 200 630)</u>	<u>(4 333 293)</u>
	<u>\$173 935 017</u>	<u>\$40 181 594</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. LONG-TERM DEBT (cont'd)

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

2007	\$10 200 630
2008	20 227 444
2009	9 805 737
2010	9 805 737
2011	9 967 953

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

15. FUTURE FRINGE BENEFITS**Pension plans**

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

The Bibliothèque et Archives nationales' contributions charged to the year-end statement amount to \$918 459 (2005: \$536 661). The liability of the Bibliothèque et Archives nationales towards these government plans is restricted to its contributions as an employer.

Provision for sick leave

	2006			2005	
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
Opening balance	\$3 423 840		\$4 270	\$3 428 110	\$1 748 305
Charge for the year	681 342	\$3 289	(1 911)	682 720	478 948
Benefits paid during the year	(408 712)	(832)	(2 359)	(411 903)	(351 941)
Closing balance	<u>\$3 696 470</u>	<u>\$2 457</u>	<u></u>	<u>\$3 698 927</u>	<u>\$1 875 312</u>

The negative balance of expenses for the fiscal year in the Start-up Fund are due to the fact that employees were transferred to the Operating Fund. The opening balance of the operating Fund was adjusted to include the provision pour for sick leave of the Archives nationales du Québec employees integrated into the Bibliothèque nationale in the amount of \$1 552 798.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

16. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
Opening balance	\$56 135	\$42 482 031	\$108 367 402	\$150 905 568	\$114 683 703
Increase in Gouvernement du Québec commitments	120 000	3 728 932	13 985 342	17 834 274	48 343 177
Amortization for the fiscal year	(49 629)	(4 650 408)	(9 797 175)	(14 497 212)	(12 121 312)
Closing balance	<u>\$126 506</u>	<u>\$41 560 555</u>	<u>\$112 555 569</u>	<u>\$154 242 630</u>	<u>\$150 905 568</u>

17. FINANCIAL EXPENSES

	2006				2005
	General Fund	Fund for activities funded through specific borrowings	Start-up Fund	Total	Total
Interest and bank charges	\$49 192	\$287	\$(733)	\$48 746	\$11 282
Interest on long-term debt		2 305 293	6 069 044	8 374 337	2 492 875
Interest on short-term borrowings		9 099	269 030	278 129	506 028
Amortization of the deferred discount and long-term debt issuing charges		65 186	81 073	146 259	64 768
	<u>\$49 192</u>	<u>\$2 379 865</u>	<u>\$6 418 414</u>	<u>\$8 847 471</u>	<u>\$3 074 953</u>

Capitalized interest on fixed assets in the fiscal year totalled \$339 960 (2005: \$2 600 667).

18. FINANCIAL INSTRUMENTS**Interest rate risk**

Bibliothèque et Archives nationales' 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 \$195 830 165 cannot be assessed given the absence of a market for this type of financial instrument.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

18. FINANCIAL INSTRUMENTS (cont'd)**Fair value of financial instruments (cont'd)***Long-term debt*

At March 31, 2006, the fair value of long-term debts of \$184 135 647 (2005: \$44 514 887) was \$189 717 064 (2005: \$46 957 847), given the discounting of cash flows to market interest rates for securities with similar conditions and characteristics.

Other assets and liabilities

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

19. COMMITMENTS

The Bibliothèque et Archives nationales has made commitments under operating leases ending on different dates until August 31, 2014 for offices and equipment. The expenditure for the fiscal year ended March 31, 2006 for these contracts totalled \$943 503, of which \$712 546 concerns leases signed with the Société immobilière du Québec (SIQ). The penalty for terminating equipment contracts is \$46 622.14.

Minimum future payments are as follows:

2006	\$4 303 083
2007	4 303 083
2008	4 303 083
2009	4 145 054
2010	4 073 873
	<u>\$21 128 176</u>

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

	<u>2006</u>
For operations	\$684 440
For start-up of lending building operations	<u>5 139 670</u>
	<u>\$5 824 110</u>

The Bibliothèque et Archives nationales also committed to awarding teaching establishments or individuals amounts totalling \$65 000 annually in order 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 is suing Axor Construction Canada Inc. and London Guarantee Life Insurance Co., solidarily, for \$2 095 000 plus interest plus the additional compensation provided for in the Québec Civil Code and Axor Construction Canada Inc., alone, for \$235 156 plus interest plus the additional compensation provided for in the Québec Civil Code plus extrajudicial costs incurred. It is impossible to reasonably foresee the outcome of these two proceedings. Consequently, no provision has been entered on the books.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

21. ADDITIONAL INFORMATION CONCERNING CASH FLOWS

	<u>2006</u>	<u>2005</u>
a) Interest paid	<u>\$6 499 052</u>	<u>\$2 247 497</u>
b) Operations not affecting cash flows related to investment activities:		
Fixed asset purchases financed from accounts receivable	<u>\$3 377 392</u>	<u>\$2 670 256</u>

22. RELATED PARTY TRANSACTIONS

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

The Bibliothèque nationale signed an occupancy and space loan agreement in December 2000. The agreement contemplates the loan of offices and equipment, taxes and heating and lighting costs for the conservation activities of the Archives nationales du Québec, an entity reporting to the Ministère de la Culture et des Communications until January 30, 2006. No consideration is received under this agreement. The book value of this transaction is estimated at \$259 710 for ten months ending on January 31, 2006 (2005: \$307 461).

The Bibliothèque et Archives nationales signed an agreement with the Ministère de l'Emploi, de la Solidarité sociale et de la Famille under which Emploi-Québec pledges to assume the Centre Emploi-Carrière's establishment and operating costs related to documentary, human and material resources. Consequently, it agrees to cover the initial acquisition cost (not exceeding \$160 000) of a collection of 4 400 documentary resources that become the Bibliothèque et Archives nationales' property. Emploi-Québec also agrees to cover, for a 5-year period, the costs linked to collections' renewal up to \$50 000 per year. During the fiscal year ending 31, 2006, no acquisition was made.

23. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Bibliothèque et Archives nationales du Québec must assess the different job categories. On the date the financial statements were prepared, the Bibliothèque et Archives nationales was not able to assess the amount it might have to disburse, where 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**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Lise Bissonnette
President-Director General

Louise Boutin
Director General, Administration and
In-house Services

Montréal, June 15, 2006

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, 2006, the income statement, changes in net assets statement, and cash flow statement for the year then ended. These financial statements are the responsibility of Bibliothèque et Archives nationales management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Bibliothèque et Archives nationales' 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, June 15, 2006

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

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Contributions	\$150 250	\$160 250
Revenue under the agreement with the Canadian Professional Fish Harvesters (Note 6)	15 645	37 092
Amortization of deferred contributions	170	447
Other	<u>22 210</u>	<u>25 199</u>
	<u>188 275</u>	<u>222 988</u>
EXPENSES		
Salaries and fringe benefits	102 870	104 075
Rent	5 500	5 500
Office supplies	12 215	22 559
Telecommunications	2 328	2 356
Travel and entertainment	24 941	15 653
Maintenance and repairs	3 090	3 023
Professional fees	2 155	2 910
Insurance	1 270	1 196
Other expenses related to the agreement with the Canadian Professional Fish Harvesters (Note 6)	2 494	20 092
Miscellaneous	13 083	13 378
Bank charges	746	803
Depreciation of fixed assets	<u>1 860</u>	<u>2 402</u>
	<u>172 552</u>	<u>193 947</u>
EXCESS REVENUE OVER EXPENDITURE	15 723	29 041
SURPLUS, BEGINNING OF YEAR	<u>96 339</u>	<u>67 298</u>
SURPLUS, END OF YEAR	<u><u>\$112 062</u></u>	<u><u>\$96 339</u></u>

The notes are an integral part of these financial statements.

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBECBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$48 941	\$70 684
Term deposits	185 303	142 148
Accounts receivable (Note 3)	4 766	39 509
Prepaid expenses	1 840	2 274
	<u>240 850</u>	<u>254 615</u>
Fixed assets (Note 4)	<u>4 573</u>	<u>5 896</u>
	<u>\$245 423</u>	<u>\$260 511</u>
 LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$10 366	\$36 676
Deferred revenue (Note 5)	122 500	126 400
	<u>132 866</u>	<u>163 076</u>
Deferred contributions related to fixed assets	<u>495</u>	<u>1 096</u>
	133 361	164 172
SURPLUS	<u>112 062</u>	<u>96 339</u>
	<u>\$245 423</u>	<u>\$260 511</u>

The notes are an integral part of these financial statements.

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

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

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Excess revenue over expenditure	\$15 723	\$29 041
Adjustments for:		
Depreciation of fixed assets	1 860	2 402
Amortization of deferred contributions	(170)	(447)
Loss of disposal of asset	312	
	<u>17 725</u>	<u>30 996</u>
Change in non-cash items related to operations		
Change in accounts receivable	34 743	(26 338)
Decrease (increase) in prepaid expenses	434	(1 189)
Increase (decrease) in accounts payable and accrued liabilities	(26 310)	15 485
Decrease in deferred revenue	(3 900)	(5 734)
	<u>4 967</u>	<u>(17 776)</u>
Cash flows provided by operating activities	<u>22 692</u>	<u>13 220</u>
INVESTMENT ACTIVITIES		
Proceeds from the disposal of fixed assets		30
Acquisition of fixed assets	(1 280)	(1 239)
Cash flows used for investment activities:	<u>(1 280)</u>	<u>(1 209)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	21 412	12 011
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>212 832</u>	<u>200 821</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$234 244</u>	<u>\$212 832</u>
Cash and cash equivalents include the following amounts:		
Cash on hand	\$48 941	\$70 684
Term deposits	<u>185 303</u>	<u>142 148</u>
	<u>\$234 244</u>	<u>\$212 832</u>

The notes are an integral part of these financial statements.

BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS
 Mach 31, 2006

1. CONSTITUTION AND PURPOSE

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Revenue recording

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

Fixed assets

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

Office furniture and equipment	20%
Computer equipment	30%

Cash and cash equivalents

The Bureau's policy consists in presenting cash and cash equivalents, 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.

3. ACCOUNTS RECEIVABLE

	2006	2005
Canadian Fish Harvesters Council	\$1 704	\$35 454
Federal and provincial taxes	988	2 634
Accrued interest	1 787	1 407
Other	287	14
	<u>\$4 766</u>	<u>\$39 509</u>

4. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$2 102	\$1 544	\$558
Computer equipment	13 324	9 309	4 015
	<u>\$15 426</u>	<u>\$10 853</u>	<u>\$4 573</u>
			<u>\$5 896</u>

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

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. DEFERRED REVENUE

	<u>2006</u>	<u>2005</u>
Registration fees paid by fishermen and fishermen's assistants ^a	<u>\$122 500</u>	<u>\$126 400</u>

^a Deferred revenue represents the registration fees paid by fishermen and fishermen's assistants for fiscal 2006-2007. These contributions are designed to cover operating expenses for the coming fiscal year.

6. AGREEMENT WITH THE CANADIAN FISH HARVESTERS COUNCIL

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

7. RELATED PARTY TRANSACTIONS

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

8. FINANCIAL INSTRUMENTS

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

9. COMPARATIVE FIGURES

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

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

MANAGEMENT'S REPORT

The financial statements of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

The Auditor General of Québec has audited the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec's financial statements in accordance with generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Bureau to discuss any matter related to the audit.

Jean-Claude Blanchette
President and Chief Executive Officer

Québec, May 3, 2006

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

To the National Assembly

I have audited the balance sheet of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec as at March 31, 2006, the income and surplus statement and cash flow statement for the year then ended. These financial statements are the responsibility of Bureau management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

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

In my opinion, with the exception of the effect of the adjustment I might have deemed necessary had I been able to check the comprehensiveness of the contributions mentioned in the previous paragraph, these financial statements present fairly, in all material respects, the Bureau's financial position as at March 31, 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, May 3, 2006

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

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (14 months)
REVENUES		
Autorité des marchés financiers contribution	\$1 362 589	\$3 496 676
Fees and related costs	4 446	1 202
Other	44 067	29 317
Transfers for sick leave and vacation time (Note 7)	<u>12 647</u>	<u>323 789</u>
	<u>1 423 749</u>	<u>3 850 984</u>
EXPENSES		
Salaries and fringe benefits	1 048 778	1 481 081
Rent and fit ups	251 279	327 477
Amortization of fixed assets	123 377	28 262
Operating expenses	83 655	89 864
Professional, administrative and other services	29 864	79 870
Part-time members' fees	28 566	68 032
Transportation and communications	17 854	38 525
Interest on long term debt	<u>14 696</u>	<u>1 477</u>
	<u>1 598 069</u>	<u>2 114 588</u>
(INSUFFICIENCY) SURPLUS OF REVENUES OVER EXPENSES	(174 320)	1 736 396
SURPLUS, BEGINNING OF YEAR	<u>1 736 396</u>	<u> </u>
SURPLUS, END OF YEAR	<u>\$1 562 076</u>	<u>\$1 736 396</u>

The notes are an integral part of these financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash	\$145 440	\$346 598
Accounts receivable	142	69 211
Interest accrued	10 954	6 038
Short-term investments (Note 3)	558 051	1 423 443
Prepaid expenses	35 542	12 841
	<u>750 129</u>	<u>1 858 131</u>
Conseil du trésor receivable (Note 7)	81 691	
Long-term investment (Note 4)	693 689	
Fixed assets (Note 4)	<u>643 004</u>	<u>743 423</u>
	<u>\$2 168 513</u>	<u>\$2 601 554</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$20 330	\$78 407
Instalments on long-term debt (Note 8)	48 032	35 755
	<u>68 362</u>	<u>114 162</u>
Provision for sick leave and vacation time (Note 7)	474 565	435 211
Long-term debt (Note 8)	<u>63 510</u>	<u>315 785</u>
	<u>606 437</u>	<u>865 158</u>
SURPLUS		
Contingency reserve (Note 9)	700 000	500 000
Unappropriated surplus	862 076	1 236 396
	<u>1 562 076</u>	<u>1 736 396</u>
	<u>\$2 168 513</u>	<u>\$2 601 554</u>
COMMITMENT (Note 13)		

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
Teresa Carluccio

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES**CASH FLOW STATEMENT**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
(Insufficiency) surplus of revenues over expenses	\$(174 320)	\$1 736 396
Adjustments for:		
Amortization of fixed assets	<u>123 377</u>	<u>28 262</u>
	(50 943).....	1 764 658.....
Change in non-cash elements related to operating activities		
Decrease (increase) in accounts receivable	69 069	(69 211)
Increase in interest accrued	(4 916)	(6 038)
Increase in prepaid expenses	(22 701)	(12 841)
Conseil du trésor receivable	(81 691)	
Change in accounts payable	(58 077)	45 476
Provision for sick leave and vacation time	<u>39 354</u>	<u>435 211</u>
	(58 962).....	392 597.....
Cash flows related to operating activities	<u>(109 905)</u>	<u>2 157 255</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(22 958)	(379 938)
Acquisition of long-term investment	<u>(693 689)</u>	
Cash flows related to investment activities:	<u>(716 647)</u>	<u>(379 938)</u>
FINANCING ACTIVITIES		
Cash flows related to financing activities:		
Repayment of long-term debt	<u>(239 998)</u>	<u>(7 276)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1 066 550)	1 770 041
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 770 041</u>	
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u><u>\$703 491</u></u>	<u><u>\$1 770 041</u></u>

The notes are an integral part of these financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

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

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

The Bureau administers and controls the Bureau de décision et de révision en valeurs mobilières Fund. The amounts required for the application of Title IV of the Act respecting the Autorité des marchés financiers, which includes the Bureau's operating expenses, are taken from the Fund. For more complete financial information, the Bureau presents the Fund's operations and assets separately in Note 14.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed assets

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

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

Investments

Short-term investments are recorded at cost of 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 a revenue when it is received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Pension plans

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

Cash and cash equivalents

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

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRESNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. SHORT-TERM INVESTMENTS**

	2006		2005	
	Cost	Fair value	Cost	Fair value
Government of Canada T-bills:				
- maturing April 21, 2005 at rate of return of 2.45%			\$735 294	\$738 956
- maturing May 19, 2005, at rate of return of 2.48%			688 149	689 723
- maturing April 20, 2006, at rate of return of 3.302%	\$558 051	\$561 933		
	<u>\$558 051</u>	<u>\$561 933</u>	<u>\$1 423 443</u>	<u>\$1 428 679</u>

4. LONG-TERM INVESTMENT

The long-term investment is composed of a Government of Canada bond bearing interest at a rate of 3% and maturing in June 2007.

5. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Data processing equipment	\$68 785	\$32 033	\$36 752
Equipment and office furniture	167 042	38 112	128 930
Leasehold improvements	558 816	81 494	477 322
	<u>\$794 643</u>	<u>\$151 639</u>	<u>\$643 004</u>
			<u>\$743 423</u>

6. CASH FLOW

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

	2006	2005
Cash	\$145 440	\$346 598
Short-term investments	<u>558 051</u>	<u>1 423 443</u>
Cash and cash equivalents	<u>\$703 491</u>	<u>\$1 770 041</u>

Interest paid

Interest paid by the Bureau during the fiscal year totals \$14 696 (\$1 477 in 2005).

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. CASH FLOW (suite)

Operations related to investment activities not affecting cash flows

Accounts payable and accrued expenses include no amount (\$32 931 in 2005) related to the acquisition of fixed assets.

Operations related to financing activities not affecting cash flows

In 2005, fixed assets of \$358 816 were acquired through a borrowing from the Société immobilière du Québec.

7. FUTURE FRINGE BENEFITS

Pension plans

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

Bureau contributions posted to results totalled \$45 059 (\$28 704 in 2005). The Bureau's 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, a provision of \$323 789 was posted to liabilities in 2005. The Bureau received equivalent compensation from the Autorité and Secrétariat of \$0 (\$254 745 in 2005) and \$12 647 (\$69 044 in 2005) respectively.

	2006		2005	
	Sick leave	Vacation time	Sick leave	Vacation time
Opening balance	\$277 028	\$158 183	\$435 211	
Expenses for the fiscal year	46 980	89 140	136 120	\$498 942
Benefits paid during the year	(12 438)	(84 328)	(96 766)	(63 731)
Closing balance	<u>\$311 570</u>	<u>\$162 995</u>	<u>\$474 565</u>	<u>\$435 211</u>

8. 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 \$200 000 on the long-term debt.

	2006	2005
Borrowing, 5%, repayable in monthly instalments of \$4 376 including principal and interest, maturing June 30, 2008	\$111 542	\$351 540
Less: capital payments maturing within one year	(48 032)	(35 755)
	<u>\$63 510</u>	<u>\$315 785</u>

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. LONG-TERM DEBT (cont'd)

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

2007	\$48 032
2008	50 490
2009	13 020
	<u>\$111 542</u>

9. CONTINGENCY RESERVE

The Bureau resolved to create a contingency reserve. During the fiscal year, an additional \$200 000 was allotted to the reserve for a total of \$700 000 (\$500 000 in 2005). This reserve was created in case of an unforeseen variation in expenses.

10. FINANCIAL INSTRUMENTS

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

The fair value of the long-term debt is \$112 427, given that variations were discounted at the current rate.

11. PAY EQUITY

Following the adoption of the Pay Equity act on November 21, 1996, the Bureau must assess the different job categories. When the financial statements were prepared, the Bureau was unable to assess the amount it might have to disburse, where applicable, given that work related to this process was not yet completed. Consequently, no amount was recorded in the financial statements.

12. RELATED PARTY TRANSACTIONS

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

13. COMMITMENT

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

The fiscal year's expenses for offices currently occupied was \$251 058 (\$43 236 in 2005).

Minimum future payments are as follows:

2007	\$253 575
2008	267 768
	<u>\$521 343</u>

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES FUND

Changes in Fund balance For the year ended March 31, 2006

	2006	2005
Increase		
Autorité des marchés financiers contribution	\$1 362 589	\$3 496 676
Fees and related costs	4 446	1 202
Other	44 067	29 317
Transfers for sick leave and vacation time	12 647	323 789
	<u>1 423 749</u>	<u>3 850 984</u>
Decrease		
Transfers linked to:		
Operating activities	1 516 258	1 618 480
Fixed asset activities	22 958	379 938
Repayment of the long-term debt	239 998	7 276
	<u>1 779 214</u>	<u>2 005 694</u>
Opening balance	<u>1 845 290</u>	
Closing balance	<u><u>\$1 489 825</u></u>	<u><u>\$1 845 290</u></u>
The balance is represented by:		
Cash on hand	\$145 440	\$346 598
Accounts receivable		69 211
Accrued interest	10 954	6 038
Short-term investments	558 051	1 423 443
Conseil du trésor receivable	81 691	
Long-term investment	693 689	
	<u>\$1 489 825</u>	<u>\$1 845 290</u>

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

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

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

The financial statements of the Bureau de décision et de révision en valeurs mobilières were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

Guy Lemoine
President

Teresa Carluccio
Director of Administration

Montréal, June 22, 2006

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, 2006 and the income and surplus statement and cash flow statement for the year then ended. These financial statements are the responsibility of Bureau management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Bureau's financial position as at March 31, 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 basis consistent with that of the preceding year

Renaud Lachance, CA
Auditor General of Québec

Québec, June 22, 2006

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, 2005
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
Investment income (Note 6a)	4 724	3 850
Less:		
Operating expenses (Note 7)	<u>239</u>	<u>212</u>
Net investment income	4 485	3 638
Gains (losses) on the sale of investments (Note 6c)	<u>7 715</u>	<u>4 169</u>
Total realized income	12 200	7 807
Unrealized increase (decrease) in the value of investments and liabilities related to investments (Note 6d)	<u>2 955</u>	<u>3 011</u>
Total investment operations	15 155	10 818
Excess depositors' deposits over withdrawals	<u>4 571</u>	<u>2 217</u>
INCREASE IN COMBINED NET ASSETS	19 726	13 035
COMBINED NET ASSETS, BEGINNING OF YEAR	<u>102 433</u>	<u>89 398</u>
COMBINED NET ASSETS, END OF YEAR	<u><u>122 159</u></u>	<u><u>102 433</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, 2005

(in millions of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments at fair value (Note 4a)	177 108	144 193
Advances to depositors	941	884
Investment income, accrued and receivable	950	873
Transactions being settled	349	338
Other assets	<u>391</u>	<u>788</u>
	<u>179 739</u>	<u>147 076</u>
LIABILITIES		
Liabilities related to investments (Note 4b)	51 632	41 945
Transactions being settled	3 718	1 047
Other liabilities	970	1 033
Non-controlling interests (Note 4c)	<u>1 260</u>	<u>618</u>
	<u>57 580</u>	<u>44 643</u>
DEPOSITORS' HOLDINGS (Note 5)	<u>122 159</u>	<u>102 433</u>

DERIVATIVE FINANCIAL INSTRUMENTS (Note 8)**COMMITMENTS AND CONTINGENCIES** (Note 10)

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, 2005

(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).

On April 1, 2005, the assets of the Fonds du Régime de rentes du Québec were transferred to the new individual fund 300 created at that date for this depositor.

INDIVIDUAL FUNDS

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

Fund 300

Fonds du Régime de rentes du Québec administered by the Régie des rentes du Québec (created April 1, 2005);

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, 2005
(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;

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COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

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1. CONSTITUTION AND OPERATIONS (cont'd)

INDIVIDUAL FUNDS (cont'd)

Fund 333

Fonds d'indemnisation des clients des agents de voyages administered by the Office de la protection du consommateur (previously the Fonds des cautionnements des agents de voyages – cautionnements collectifs : détaillants);

Fund 341

Fonds réservé administered by the Autorité des marchés financiers (previously the Fonds affecté à une fin particulière en vertu de la Loi sur les valeurs mobilières);

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 (created August 1, 2005).

SPECIALIZED PORTFOLIOS

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

- Bonds	- Foreign Equity - hedged
- Real Return Bonds	- Foreign Equity - unhedged
- Long-Term Bonds (created April 1, 2005)	- Real Estate Debt (previously Mortgages) (consolidated statements)
- Commodity Financial Instruments	- Real Estate (consolidated statements)
- Québec International	- Short-Term Investments
- Canadian Equity	- Asset Allocation (previously Asset Allocation and Currencies) (consolidated statements)
- Hedge Fund (consolidated statements)	- Private Equity (consolidated statements)
- U.S. Equity - hedged	- Investments and Infrastructures (consolidated statements)
- U.S. Equity - unhedged	
- Emerging Markets Equity	

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 as well as on the accounting of revenues and expenses during the financial year included in the financial statements. Actual results may differ from such estimates and assumptions.

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.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

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

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Fixed-income securities

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

i) Valuation method

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

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

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity.

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and is restated in order to take into account amortization of the premium or the discount.

Variable-income securities

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

i) Valuation method

The fair value of equities traded on a stock exchange is determined from the closing prices on 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.

Derivative financial instruments

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

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

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

i) Valuation method

Derivative financial instruments are recorded at their fair value at year-end. These values are established from closing prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions, or according to recognized, commonly used models.

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

Investment income from derivative financial instruments is included in income from fixed-income and variable-income securities, whereas gains and losses from derivative financial instruments are included in gains (losses) on the sale of investments as a function of the underlying investments. As of December 31, 2001, the balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks is recorded in gains and losses on the sale of investments based on disposal of foreign investment.

Securities acquired under reverse repurchase agreements

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

Securities sold under repurchase agreements

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

Short selling of securities

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

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

c) Administered property and property under management

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

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

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

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

f) Operating expenses

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS ISSUED BY THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS**a) Investment companies**

During the year, the Caisse, which defines itself as an investment company, adopted Accounting Guideline AcG-18, *Investment Companies*. This standard requires investment companies to carry investments at fair value, including those held by consolidated subsidiaries. The Caisse already recorded investments at fair value.

The adoption of this new standard resulted in only one change in the accounting and presentation of investments. Previously, the Caisse presented investments in joint ventures using the proportionate consolidation method. Now, investments in joint ventures are recorded in Investments using the equity method. This change was applied on a prospective basis and resulted in a decrease in the following items of the combined statement of net assets as at December 31, 2005:

Investments at fair value	3 527
Investment income, accrued and receivable	5
Other assets	337
	3 869

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COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

3. ADOPTION OF NEW ACCOUNTING STANDARDS ISSUED BY THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (cont'd)**a) Investment companies (cont'd)**

Liabilities related to investments	3 439
Other liabilities	404
Non-controlling interests	26
	<u>3 869</u>

b) Variable interest entities

During 2005, the Caisse also adopted the recommendations in Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*. According to this standard a variable interest entity (VIE) is an entity in which the equity is not sufficient to permit that entity to finance its activities without external support or in which equity investors lack voting control. The primary beneficiary is the party that will absorb the majority of expected losses of the entity, receive a majority of its expected residual returns, or both. The primary beneficiary has an obligation to consolidate its interest in the VIE.

As at December 31, 2005, the Caisse consolidated any interest held in VIEs qualifying as investment companies (see 3a) above). The AcG-15 was applied retroactively in the financial statements of the year 2005 and figures of preceding years were not restated. The adoption of AcG-15 resulted in an increase in the following items of the combined statement of net assets as at December 31, 2005.

Investments at fair value	514
Investment income, accrued and receivable	3
Other assets	4
	<u>521</u>

Non-controlling interests	<u>521</u>

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

	2005		2004	
	Fair value	Cost	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	29 738	29 741	17 150	17 152
Foreign	2 099	2 170	1 752	1 819
Amounts carried forward	<u>31 837</u>	<u>31 911</u>	<u>18 902</u>	<u>18 971</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005		2004	
	Fair value	Cost	Fair value	Cost
Amounts brought forward	31 837	31 911	18 902	18 971
Bonds				
<i>Issued or guaranteed by:</i>				
Canadian government	26 999	26 146	21 523	21 006
Province of Quebec	9 391	8 372	10 826	9 710
Other Canadian provinces	1 898	1 815	1 452	1 418
Municipalities and other Canadian bodies	1 248	1 202	1 129	1 052
Canadian government corporations	9 883	9 073	7 775	6 824
U.S. government	1 807	1 886	3 675	3 839
Other foreign government	1 842	2 116	1 971	1 950
Mortgage securities	1 887	2 025	793	801
Canadian corporations	9 551	9 418	5 280	5 118
Foreign corporations	2 040	2 184	2 215	2 227
Inflation-indexed securities				
Canadian	1 277	1 111	1 090	1 024
Foreign	1 858	1 958	865	912
Hedge funds	1 473	1 491	476	487
	71 154	68 797	59 070	56 368
Mortgages				
Canadian	4 402	4 288	3 998	3 832
Foreign	579	591	554	584
	4 981	4 879	4 552	4 416
Total fixed-income securities	107 972	105 587	82 524	79 755
Variable-income securities				
Equities and convertible securities				
Canadian	17 350	15 584	15 427	14 935
U.S.	13 987	15 205	14 030	14 986
Foreign and emerging markets	16 057	14 490	13 200	12 947
Hedge funds	3 754	3 739	2 335	2 463
	51 148	49 018	44 992	45 331
Real estate holdings				
Canadian	9 247	7 490	8 543	7 827
Foreign	3 635	3 843	3 130	3 609
	12 882	11 333	11 673	11 436
Total variable income securities	64 030	60 351	56 665	56 767
Amounts carried forward	172 002	165 938	139 189	136 522

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005		2004	
	Fair value	Cost	Fair value	Cost
Amounts brought forward	172 002	165 938	139 189	136 522
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	675	675	734	734
Foreign	2 694	2 717	2 613	2 664
Amount pertaining to derivative instruments				
Canadian	416	10	225	8
Foreign	1 321	472	1 432	309
	5 106	3 874	5 004	3 715
Total investments	177 108	169 812	144 193	140 237

b) Liabilities related to investments

	2005		2004	
	Fair value	Cost	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	25 458	25 462	17 793	17 793
Foreign	4 022	4 062	5 496	5 590
Commercial paper payable	2 519	2 519	2 167	2 167
Medium-term notes	1 215	1 206	1 338	1 309
Loans payable				
Canadian	113	110	162	169
Foreign	86	86	169	169
Canadian commercial mortgage-backed securities	356	327	598	543
Short-selling of securities				
Canadian	12 232	11 565	7 333	6 963
Foreign	3 560	3 559	2 639	2 599
Mortgage loans payable				
Canadian	640	612	1 683	1 532
Foreign	233	227	1 500	1 482
Amount pertaining to derivative instruments				
Canadian	243	38	237	89
Foreign	955	343	830	277
	51 632	50 116	41 945	40 682

c) Non-controlling interests

	2005		2004	
	Fair value	Cost	Fair value	Cost
Canadian	1 023	948	481	462
Foreign	237	183	137	157
	1 260	1 131	618	619

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**c) Non-controlling interest (cont'd)**

Investments – Real estate holdings includes, among others, investments in joint ventures now reported on an equity basis. Previously this information was presented using the proportionate consolidation method. These investments at fair value were as follows as at December 31, 2005:

Investments in joint ventures	5 643
Real estate holdings	9 167
Short-term investments	3
Investment income, accrued and receivable	5
Other assets	337
	<u>9 512</u>
Mortgage loans payable	3 439
Other liabilities	404
Non-controlling interests	26
	<u>3 869</u>

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

	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>
	2004		
	Canadian	Foreign	Total
Investments			
Fixed-income securities	70 217	12 307	82 524
Equities and convertible securities	15 427	29 565	44 992
Real estate holdings	8 543	3 205	11 748
Amount receivable with respect to investments	959	3 970	4 929
	<u>95 146</u>	<u>49 047</u>	<u>144 193</u>
Liabilities related to investments	<u>31 311</u>	<u>10 634</u>	<u>41 945</u>
Non-controlling interests	<u>481</u>	<u>137</u>	<u>618</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005					2004	
	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	28 928	614	292	29 834	3.3 %	17 966	2.7 %
Foreign	1 193	511	399	2 103	5.1	1 619	4.3
	<u>30 121</u>	<u>1 125</u>	<u>691</u>	<u>31 937</u>	3.5	<u>19 585</u>	2.9
Bonds							
<i>Issued or guaranteed by:</i>							
Canadian government	3 659	4 957	15 279	23 895	3.8	19 931	4.3
Province of Québec	1 501	1 404	5 083	7 988	4.9	9 393	5.7
Other Canadian provinces	146	309	1 256	1 711	4.3	1 372	4.7
Municipalities and other Canadian bodies	223	627	335	1 185	5.3	1 027	6.2
Canadian government corporations	706	4 749	3 517	8 972	4.5	6 710	5.4
U.S. government	623	315	781	1 719	4.0	3 869	4.3
Other foreign governments		815	1 069	1 884	2.0	1 914	2.5
Mortgage securities	19	51	3 314	3 384	13.1	1 056	12.1
Canadian corporations	2 188	1 952	5 139	9 279	4.9	5 050	5.4
Foreign corporations	151	305	1 643	2 099	5.8	2 323	4.9
Inflation-indexed securities							
Canadian			745	745	2.4	710	2.4
Foreign	97	503	1 071	1 671	1.7	736	1.2
	<u>9 313</u>	<u>15 987</u>	<u>39 232</u>	<u>64 532</u>	4.7	<u>54 091</u>	4.8
Mortgages							
Canadian	1 063	1 726	1 491	4 280	6.4	3 832	6.6
Foreign	297	280	12	589	8.2	584	8.0
	<u>1 360</u>	<u>2 006</u>	<u>1 503</u>	<u>4 869</u>	6.6	<u>4 416</u>	6.8
	<u>40 794</u>	<u>19 118</u>	<u>41 426</u>	<u>101 338</u>	4.4 %	<u>78 092</u>	4.5 %
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	676			676	3.3 %	735	2.4 %
Foreign	2 704			2 704	3.6	2 640	1.6
	<u>3 380</u>			<u>3 380</u>	3.5 %	<u>3 375</u>	1.8 %

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

as at December 31, 2005

(in millions of dollars)

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

	2005				2004	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effect- ive interest rate	Total par value
Liabilities related to investments						
Securities sold under repurchase agreements	29 530			29 530	3.2 %	23 335
Commercial paper payable	2 525			2 525	3.3	2 176
Medium-term notes	175	1 035		1 210	4.2	1 312
Loans payable	190		3	193	3.9	330
Canadian commercial mortgage-backed securities	3	285	47	335	6.9	550
Short selling of securities	1 984	2 686	6 148	10 818	4.0	7 215
Mortgage loans payable	380	258	201	839	8.1	3 014
	<u>34 787</u>	<u>4 264</u>	<u>6 399</u>	<u>45 450</u>	3.5 %	<u>37 932</u>
						3.3 %

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investments as of December 31, 2001, was \$20 million as at December 31, 2005 (\$127 million in 2004).

The fair value of investments in short-term investments, bonds, equities and convertible securities includes investments in private companies, in the amount of \$1 271 million, \$1 054 million and \$10 836 million respectively as at December 31, 2005 (\$1 125 million in short-term investments, \$1 316 million in bonds, and \$7 843 million in equities and convertible securities in 2004), for which market prices are not available.

In addition, the \$7 715 million (\$4 169 million in 2004) of gains on the sale of investments presented in the combined statement of changes in net assets includes \$1 257 million in foreign exchange gains (\$103 million in 2004).

5. DEPOSITORS' HOLDINGS

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

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

	2005	2004
Caisse's indebtedness toward depositors		
Demand deposits	220	41
Term deposits	14	
Interest on demand and term deposits	(1)	(1)
Net income to be paid out to participation deposit holders	<u>828</u>	<u>471</u>
Amounts carried forward	<u>1 061</u>	<u>511</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

5. DEPOSITORS' HOLDINGS (cont'd)

	2005	2004
Amounts brought forward	1 061	511
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	93 317	87 206
Units issued	11 957	6 897
Units cancelled	(1 112)	(786)
Balance, end of year	104 162	93 317
Amount not allocated with respect to real estate holdings *	31	33
Unrealized increase (decrease) in value allocated following interfund transactions	(597)	182
Amount not allocated following gains and losses on the sale of investments in the specialized portfolios **	11 851	5 696
Unrealized increase (decrease) in value of investments and other related assets and liabilities	5 651	2 694
	121 098	101 922
Depositors' holdings	122 159	102 433

* 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.

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

	2005	2004
Fixed-income securities		
Short-term investments	189	253
Bonds	2 391	1 831
Mortgages	321	269
	2 901	2 353
Variable-income securities		
Equities and convertible securities	1 370	999
Real estate holdings (Note 6b)	514	531
	1 884	1 530
Other income	37	22
Non-controlling interests	(98)	(55)
	4 724	3 850

Investment income – Fixed-income securities include \$672 million (\$365 million in 2004) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005	2004
Income from real estate holdings	1 746	1 844
Less :		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	893	967
Operation expenses	73	53
Loan financial expenses	288	308
	1 254	1 328
Other income	22	15
	<u>514</u>	<u>531</u>

c) Gains (losses) on the sale of investments

	2005	2004
Fixed-income securities		
Short-term investments	31	(190)
Bonds	1 041	295
Mortgages	24	2
	1 096	107
Variable-income securities		
Equities and convertible securities	6 577	4 122
Real estate holdings	68	(76)
	6 645	4 046
Non-controlling interests	(26)	16
	<u>7 715</u>	<u>4 169</u>

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

	2005	2004
Fixed-income securities		
Short-term investments	(142)	(14)
Bonds	2	1 100
Mortgages	(36)	59
Securities acquired under reverse repurchase agreements	29	(53)
Amounts carried forward	 (147)	 1 092

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005	2004
Amounts brought forward	(147)	1 092
Variable-income securities		
Equities and convertible securities	2 335	1 541
Real estate holdings	1 150	427
	3 485	1 968
Total investments	3 338	3 060
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	50	(63)
Medium-term notes	(20)	27
Loans payable	10	(8)
Commercial mortgage-backed securities	(26)	26
Short selling securities	258	162
Mortgage loans payable	(135)	13
Derivative financial instruments	116	34
Non-controlling interests	130	(142)
	383	49
	2 955	3 011

7. OPERATING EXPENSES

	2005	2004
Salaries and employee benefits	107	106
Professional services	42	38
Premises and equipment	17	15
Depreciation of fixed assets	13	18
External management and safekeeping of securities	33	21
Other	27	14
	239	212

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

as at December 31, 2005

(in millions of dollars)

8. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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

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

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

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

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as related derivative financial instruments. In order to manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to twelve months in the case of forward contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated in order to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

Derivative instruments that are traded on exchanges or with banks are securities dealers are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate income from transactions, which is included in investment income from fixed-income and variable-income securities.

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

a) Summary of derivative financial instruments

	2005			2004
	Notional amount	Fair Value		Net amount
		Assets	Liabilities	
Foreign exchange risk management				
Foreign currency swaps	1 091	51	19	32
Forward contracts	26 776	188	154	34
Over-the-counter foreign currency options				
Purchases	33	5		5
Sales	15		4	(4)
Amounts carried forward	27 915	244	177	67
				406

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in millions of dollars)

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

	2005			2004	
	Notional amount	Fair Value		Net amount	
		Assets	Liabilities		Net amount
Amounts brought forward	27 915	244	177	67	406
Interest rate and market risk management					
Interest rate and foreign currency swaps	69 150	631	480	151	(169)
Credit risk swaps	3 220	20	22	(2)	
Equity swaps	11 387	174	15	159	81
Forward contracts	12 596	181	171	10	108
Futures contracts	152 209				
Exchange-traded options					
Purchases	72 809	112		112	21
Sales	69 611		97	(97)	(15)
Over-the-counter options					
Purchases	53 238	375		375	237
Sales	32 601		236	(236)	(154)
	476 821	1 493	1 021	472	109
Total derivative financial instrument contracts	504 736	1 737	1 198	539	515

b) Summary of derivative financial instrument maturities

	2005				2004
	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		990	101	1 091	432
Forward contracts	26 607		169	26 776	21 960
Over-the-counter foreign currency options					
Purchases	33			33	155
Sales	15			15	157
Amounts carried forward	26 655	990	270	27 915	22 704

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

as at December 31, 2005

(in millions of dollars)

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

	2005				2004
	Notional amount – Maturity				
	Less than 2 years	2 to 5 years	More than 5 years	Total	Notional amount
Amounts brought forward	26 655	990	270	27 915	22 704
Interest rate and market risk management					
Interest rate and foreign currency swaps	16 495	14 571	38 084	69 150	53 791
Credit risk swaps	964	2 209	47	3 220	
Equity swaps	9 960	1 427		11 387	6 973
Forward contracts	12 204	392		12 596	19 287
Futures contracts	142 878	9 331		152 209	73 023
Exchange-traded options					
Purchases	71 682	1 127		72 809	7 039
Sales	68 468	1 143		69 611	7 975
Over-the-counter options					
Purchases	48 020	2 176	3 042	53 238	30 018
Sales	27 014	1 608	3 979	32 601	22 911
	397 685	33 984	45 152	476 821	221 017
Total derivative financial instrument contracts	424 340	34 974	45 422	504 736	243 721

9. SECURITIZATION

During the year, the Caisse securitized \$165.5 million (nil in 2004) in commercial mortgage loans by creating notes payable. In 2005, notes payable were issued for an amount of \$180.0 million (nil in 2004). The Caisse recorded net proceeds in cash of \$178.4 million (nil in 2004). Net gains of \$12.9 million (nil in 2004) on the sale of such notes, net of transaction costs, were recorded in Gains (losses) on sale of investments – Mortgages.

Commercial mortgage-backed securities acquired by the Caisse are recorded in the combined statement of net assets under Mortgage securities. As at December 31, 2005, these securities amounted to \$275.8 million (\$251.0 million in 2004). Securitization allowed The Caisse to generate \$1.9 million in management fees in 2005 (\$1.5 million in 2004). No losses are expected due to the nature and quality of the loans.

10. 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 from one to five years.

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

as at December 31, 2005

(in millions of dollars)

10. COMMITMENTS AND CONTINGENCIES (cont'd)

	2005	2004
Commitments to buy investments	8 233	7 262
Collaterals and loan guarantees	737	448
	<u>8 970</u>	<u>7 710</u>

The Caisse, through a subsidiary, made an offer to acquire the public U.S. company Criimi Mae. The offer to purchase at US\$20 per share (CA\$23) represents a total amount of approximately US\$350 million (CA\$408.9 million). The board of directors of the company approves of this offer and has informed its shareholders of its position. On January 18, 2006, a special shareholders meeting took place and the transaction was formally approved.

11. COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets, with various counterparties, with which clearing agreements have been signed in order to limit credit risk. In its securities lending operations, the Caisse received assets as collateral. As at December 31, 2005, the Caisse pledged and received as collateral securities and other assets for amounts of \$31 411 million (\$25 210 million in 2004) and \$6 769 million (\$6 709 million in 2004) respectively. The amount of the assets pledged as collateral consists of assets with a value of \$688 million (\$631 million in 2004), which were pledged with depositaries to participate in clearing and payment systems.

12. COMPARATIVE FIGURES

During the year, the presentation of certain items in the 2004 report was reviewed in order to better reflect the nature of some financial instruments. The change resulted in an increase (decrease) in the following items of the financial statements:

	2004	
	Fair value	Cost
Assets		
Investments	(124)	(47)
Liabilities		
Liabilities related to investments	(124)	(47)

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

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

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

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

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

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

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

Henri-Paul Rousseau
President and Chief Executive Officer

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

Montréal, February 13, 2006

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, 2005, 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, 2005, 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, with the exception of the changes to the accounting method applied to investments in joint ventures and interests in variable interest entities explained in note 3, 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 13, 2006

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

INCOME AND DEFICIT STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Interest on bank deposits and short-term investments	\$475 737	\$506 504
Interest on debentures	397 498	384 484
Royalties on debentures	86 756	23 886
Dividends	11 332	
Fees	<u>33 000</u>	<u>43 500</u>
	<u>1 004 323</u>	<u>958 374</u>
EXPENSES		
Salaries and fringe benefits	626 848	587 203
Transportation and communication services	57 170	64 765
Rent	32 161	24 189
Professional, administrative and other services	32 558	132 654
Supplies and furnishings	31 604	2 688
Depreciation of fixed assets	1 885	2 056
Loss of value on investments	<u>282 617</u>	<u>884 230</u>
	<u>1 064 843</u>	<u>1 697 785</u>
INSUFFICIENCY OF REVENUE OVER EXPENSES BEFORE SHARES	60 520	739 411
SHARE IN THE LOSS OF SATELLITE CORPORATIONS	<u>200 000</u>	<u>275 000</u>
INSUFFICIENCY OF REVENUES OVER EXPENSES	260 520	1 014 411
OPENING DEFICIT	<u>1 838 452</u>	<u>824 041</u>
CLOSING DEFICIT	<u><u>\$2 098 972</u></u>	<u><u>\$1 838 452</u></u>

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.**BALANCE SHEET**
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$80 407	\$181 086
Short-term investments (Note 3)	16 383 103	17 489 782
Accounts receivable and accrued interest	181 134	279 739
Instalments receivable on investments (Note 4)	374 442	235 409
	<u>17 019 086</u>	<u>18 186 016</u>
Investments (Note 4)	5 072 943	4 200 488
Fixed assets (Note 5)	<u>2 698</u>	<u>1 885</u>
	<u><u>\$22 094 727</u></u>	<u><u>\$22 388 389</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$29 436	\$32 485
Owed to La Financière agricole du Québec	33 572	67 727
Provision for vacation time	63 609	72 749
	<u>126 617</u>	<u>172 961</u>
Provision for sick leave (Note 6)	67 082	53 880
	<u>193 699</u>	<u>226 841</u>
SHAREHOLDERS EQUITY		
Capital stock (Note 8)	24 000 000	24 000 000
Deficit	<u>(2 098 972)</u>	<u>(1 838 452)</u>
	<u>21 901 028</u>	<u>22 161 548</u>
	<u><u>\$22 094 727</u></u>	<u><u>\$22 388 389</u></u>

SUBSEQUENT EVENT AT THE BALANCE SHEET (Note 11)

The notes are an integral part of these financial statements.

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

CAPITAL FINANCIÈRE AGRICOLE INC.**CASH FLOW STATEMENT**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Insufficiency of revenue over expenditure	\$(260 520)	\$(1 014 411)
Items not affecting cash flow:		
Capitalized interest on investments	(143 235)	(272 765)
Depreciation of fixed assets	1 885	2 056
Loss of value on investments	282 617	884 230
Share in the loss of satellite corporations	<u>200 000</u>	<u>275 000</u>
	80 747	(125 890)
Change in non-cash items related to operations:		
Accounts receivable and accrued interest	98 605	(244 777)
Accounts payable and accruals	(5 747)	(2 177)
Owed to La Financière agricole du Québec	(34 155)	28 578
Provision for vacation time	(9 140)	16 366
Provision for sick leave	<u>13 202</u>	<u>5 198</u>
	62 765	(196 812)
Cash flow related to operating activities	<u>143 512</u>	<u>(322 702)</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(1 692 672)	(1 994 828)
Cashing of investments in the form of debentures	<u>341 802</u>	<u>20 500</u>
Cash flow related to investment activities	<u>(1 350 870)</u>	<u>(1 974 328)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1 207 358)	(2 297 030)
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>17 670 868</u>	<u>19 967 898</u>
CASH AND CASH EQUIVALENTS AT THE END	<u><u>\$16 463 510</u></u>	<u><u>\$17 670 868</u></u>
 Closing cash and cash equivalents include:		
Cash on hand	\$80 407	\$181 086
Short-term investments	<u>16 383 103</u>	<u>17 489 782</u>
	<u><u>\$16 463 510</u></u>	<u><u>\$17 670 868</u></u>

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS
March 31, 2006**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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. Large estimates include the service life of fixed assets, provisions and certain expenses payable. Management is of the opinion that these estimates are adequate. The 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 values so as to reflect their estimated realizable values. If loans are deemed doubtful, their book value is posted as their estimated realizable value. If the amounts and moment of realization of future cash flows cannot be reasonably estimated, the estimated realization values are measured according to the observable market prices for these loans or according to the judgement of the corporation's management.

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

Fixed assets

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

Pension plans

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

Cash and cash equivalents

The Capital Financière agricole inc. policy consists in presenting, as cash and cash equivalents, bank balances, and investments that are easily convertible in the short-term to a known amount of cash whose value is unlikely to change significantly.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. SHORT-TERM INVESTMENTS**

	2006	2005
Bonds		\$8 497 052
Bank acceptance, 3.82%, maturing on April 25, 2006	\$3 689 973	
Commercial papers, 3.89% to 4.05%, maturing until June 19, 2006	12 693 130	8 992 730
	<u>\$16 383 103</u>	<u>\$17 489 782</u>

4. INVESTMENTS

	2006	2005
Common shares – investments	\$1 300 000	\$338 647
Common shares – satellite corporations	200 000	200 000
	<u>1 500 000</u>	<u>538 647</u>
Debentures, 9% to 15%, maturing by September 2014.		
Capital and capitalized interest are cashable as follows:		
\$374 442 in 2007, \$604 431 in 2008, \$678 657 in 2009	4 186 183	4 625 299
\$722 806 in 2010 and \$1 567 049 for future fiscal years.	(238 798)	(728 049)
Provision for losses	<u>3 947 385</u>	<u>3 897 250</u>
Current portion	<u>(374 442)</u>	<u>(235 409)</u>
	<u>3 572 943</u>	<u>3 661 841</u>
	<u>\$5 072 943</u>	<u>\$4 200 488</u>

At March 31, 2006, the debentures subject to a provision for losses totalled \$388 798 (2005: \$728 049).

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 of any type at \$1.2 million per entity.

5. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Materials and equipment	\$8 867	\$6 169	\$2 698	\$1 885

6. PROVISION FOR SICK LEAVE

	2006	2005
Opening balance	\$53 880	\$48 682
Expenditure for the year	22 178	10 071
Benefits paid during the year	<u>(8 976)</u>	<u>(4 873)</u>
Closing balance	<u>\$67 082</u>	<u>\$53 880</u>

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**7. PENSION PLANS**

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

The contributions of the Société posted to results for the fiscal year total \$21 218 (2005: \$18 061). Capital Financière agricole inc.'s obligations vis-à-vis these government plans is limited to its employer contributions.

8. CAPITAL STOCK**Authorized:**

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

Unlimited number of class B shares, 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:

	2006	2005
24 000 class A shares	<u>\$24 000 000</u>	<u>\$24 000 000</u>

Change to authorized capital stock

On March 20, 2006, the Corporation changed its authorized capital stock by cancelling class B, C and D shares and adding new class B shares.

9. RELATED PARTY TRANSACTIONS

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

	2006	2005
Salaries and fringe benefits	\$208 355	\$199 028
Transportation and communication service	2 457	4 511
Rent	32 041	20 292

The Society also provided Capital Financière agricole inc. with professional services for no consideration. These services, estimated at \$230 251 for the fiscal year ended March 31, 2006 (2005: \$241 029), are measured at exchange value and are not recorded in the financial statements.

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

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. FINANCIAL INSTRUMENTS**Fair value**

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

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

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

	2006		2005	
	Book value	Fair value	Book value	Fair value
Common shares	\$1 500 000	\$1 500 000	\$538 647	\$538 647
Debentures	3 947 385	3 802 568	3 897 250	3 763 217

Credit risk

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

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

	2006	2005
Food processing	77.4%	71.6%
Food distribution	12.6%	15.1%
Farm production	10.0%	13.3%

11. SUBSEQUENT EVENT AT THE BALANCE SHEET

On April 6, 2006, the Corporation signed an agreement under which is issued 2 637 class B shares in exchange for a cash amount stipulated in the stock subscription agreement.

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

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Capital Financière agricole inc. recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management fulfils its financial reporting duties and 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

For Capital Financière agricole inc.

Jacques Brind'Amour
President

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

Lévis, May 15, 2006

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, 2006, the statement of income and deficit and the cash flow statement for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Corporation's financial position as at March 31, 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, May 15, 2006

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

INCOME AND SURPLUS STATEMENT
for the fiscal year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
Investment income and fiscal year's profits	\$99 276	\$52 758
DEFICIT, BEGINNING OF YEAR	<u>(75 179)</u>	<u>(127 937)</u>
SURPLUS (DEFICIT), END OF YEAR	<u>\$24 097</u>	<u>\$(75 179)</u>

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$293 467	\$1 819 874
Demand deposits in the General Fund of the Caisse de dépôts et placement du Québec – at cost	137 930	69 942
Investment income receivable	26 774	7 113
Term deposits, rate varying from 2.05% to 3.88%	2 000 000	
Accounts receivable	3 000	
Bonds on deposit (Note 3) (fair value: 2006: \$257 021; 2005: \$51 728)	256 605	51 623
	<u>2 717 776</u>	<u>1 948 552</u>
Bonds on deposit (Note 3) (fair value: 2006: \$849 813; 2005: \$800 181)	869 482	814 987
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><u>\$4 541 641</u></u>	<u><u>\$3 717 922</u></u>
LIABILITIES		
Individual security of travel agents (Note 5)	\$4 517 544	\$3 793 101
SURPLUS (DEFICIT)	<u>24 097</u>	<u>(75 179)</u>
	<u><u>\$4 541 641</u></u>	<u><u>\$3 717 922</u></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 VOYAGES

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

1. COMPOSITION AND OPERATION

The Cautionnements individuels des agents de voyages consist of security in amounts determined by Government regulation under the Travel Agents Act (R.S.Q., c. A-10), and are administered by the President of the Office de la protection du consommateur. The purpose of the security is to guarantee compliance with the Act and its regulations.

Investment revenue earned from cash deposited as individual security is paid into the Consolidated Revenue Fund. Interest coupons attached to bonds held on deposit remain the depositor's property and are returned to the depositor on request.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates. The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Bonds on deposit

Bonds deposited as individual security are shown at par value.

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec

Participation deposits are recorded at acquisition cost.

3. BONDS ON DEPOSIT

Acquisitions during the fiscal year ended March 31, 2006 amounted to \$311 100 (2005: \$361 452) and disposals to \$51 623 (2005: \$70 000).

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 net equity of the fund at the end of each month.

	2006	2005
Number of units	978	978
Cost of units	\$954 383	\$954 383
Fair value of units at March 31	\$1 100 002	\$1 050 961
Fair value per unit at March 31	\$1 125	\$1 075

No units were acquired or sold in the last two fiscal years.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. INDIVIDUAL SECURITY OF TRAVEL AGENTS

	<u>2006</u>	<u>2005</u>
Securities in force		
Opening balance	\$3 793 101	\$2 881 028
Security deposited	<u>990 288</u>	<u>1 040 452</u>
	<u>4 783 389</u>	<u>3 921 480</u>
Claims and trust fees	(6 205)	(5 130)
Security refunded	(179 640)	(148 249)
Bonds returned and replaced by Individual guarantee policies	<u>(230 000)</u>	<u>(205 000)</u>
	<u>(415 845)</u>	<u>(358 379)</u>
Closing balance	4 367 544	3 563 101
Prepaid securities*	<u>150 000</u>	<u>230 000</u>
	<u><u>\$4 517 544</u></u>	<u><u>\$3 793 101</u></u>

* Prepaid securities include cash securities received for licences that were not valid at the end of fiscal year.

Security provided by travel agents in the form of individual guarantee policies is estimated at \$35 699 000 as at March 31, 2006 (\$28 890 000 as at March 31, 2005) with \$30 739 000 having a valid permit as at March 31, 2006 (\$25 730 000 as at March 31, 2005). This estimate includes guarantee policies from agencies that have ceased operations within the last two years and are thus still liable for claims.

6. FINANCIAL INSTRUMENTS

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

7. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Cautionnements individuel 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. The 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. These transactions 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 drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and in a timely manner, are duly approved and can be used to prepare accurate financial statements.

The management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the financial statements as at March 31, 2006 in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome
Coordinator, Licensing Department

Yvan Turcotte
President, Office de la protection
du consommateur

Québec, June 30, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of the Cautionnements individuels des agents de voyages as at March 31, 2006 and the income and surplus statement for the fiscal year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cautionnements individuels des agents de voyages as at March 31, 2006, and the results of its operations and its cash flows for the fiscal year then ended in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 30, 2006

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

INCOME AND DEFICIT STATEMENT
for the year ended March 31, 2006

	2006	2005
REVENUES		
Research and development		
Gouvernement du Québec contribution	\$13 500 000	\$15 000 000
Outside clients	2 012 790	3 299 450
	15 512 790	18 299 450
Services		
Gouvernement du Québec contract	8 000 000	8 000 000
Outside clients	7 807 349	7 650 556
	15 807 349	15 650 556
Rental income	656 194	678 351
Other		
Gouvernement du Québec contribution	160 290	102 042
Miscellaneous revenue	255 220	65 317
	1 071 704	845 710
	32 391 843	34 795 716
EXPENSES		
Salaries and fringe benefits	19 376 480	20 411 073
Direct project costs	3 660 332	5 941 572
Building occupancy expenses	3 158 458	3 056 959
Operating expenses	2 171 013	1 905 355
Severance pay	842 177	417 945
Financial expenses	712 633	701 316
Amortization		
Fixed assets	1 671 955	1 682 548
Intangible assets	499 781	527 210
	32 092 829	34 643 978
NET INCOME	299 014	151 738
DEFICIT, BEGINNING OF YEAR	(16 336 044)	(16 487 782)
DEFICIT, END OF YEAR	\$(16 037 030)	\$(16 336 044)

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$3 521 308	\$1 865 000
Accounts receivable (Note 3)	3 707 820	3 933 188
Projects in progress	1 250 736	2 299 917
Prepaid expenses	344 905	381 111
Inventory (Note 4)	597 412	830 972
	<u>9 422 181</u>	<u>9 310 188</u>
Long-term receivables (Note 5)	1 220 289	1 394 313
Investments (Note 6)	147 383	85 634
Fixed assets (Note 7)	<u>17 140 347</u>	<u>17 523 207</u>
	<u>18 508 019</u>	<u>19 003 154</u>
	<u>\$27 930 200</u>	<u>\$28 313 342</u>
LIABILITIES		
Current liabilities		
Bank loan (Note 8)	\$3 843 240	\$3 889 520
Accounts payable and accruals (Note 9)	6 522 562	7 590 353
Deferred revenue	993 157	609 802
Instalment on long-term debt (Note 10)	6 659 133	6 379 192
	<u>18 018 092</u>	<u>18 468 867</u>
Long-term debt (Note 10)	819 565	933 561
Deferred credits	<u>655 433</u>	<u>772 818</u>
	<u>1 474 998</u>	<u>1 706 379</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 11)	24 474 140	24 474 140
Deficit	<u>(16 037 030)</u>	<u>(16 336 044)</u>
	<u>8 437 110</u>	<u>8 138 096</u>
	<u>\$27 930 200</u>	<u>\$28 313 342</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Serge Guérin
Jacques G. Martel

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**CASH FLOWS**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income	\$299 014	\$151 738
Adjustments for:		
Depreciation of fixed assets	1 671 955	1 682 548
Amortization of intangible assets	499 781	527 210
Amortization of deferred credits	(117 385)	(94 637)
Loss on disposal of fixed assets	138 395	75 947
Gain on disposal of investment	(61 749)	
Interest capitalized in advance by the Ministère des Finances	232 157	200 514
Change in non-cash elements linked to operations (Note 12)	<u>528 786</u>	<u>10 506 212</u>
Cash flows related to operating activities	<u>3 190 954</u>	<u>13 049 532</u>
INVESTMENT ACTIVITIES		
Encashment of salary advances to employees	71 301	31 354
Long-term receivables	28 804	(896 793)
Encashment of loans to employees		4 745
Acquisition of investments		(1)
Acquisition of fixed assets	(1 536 881)	(1 135 964)
Proceeds from disposal of fixed assets	<u>14 622</u>	<u>25 114</u>
Cash flows related to investment activities	<u>(1 422 154)</u>	<u>(1 971 545)</u>
FINANCING ACTIVITIES		
Repayment to Financing Fund		(945 775)
Repayment of long-term debt	(66 212)	(15 171)
Note payable to Financing Fund		939 121
Increase in long-term debt		43 467
Decrease in bank borrowing	(3 889 520)	(3 895 880)
Increase in bank borrowing	<u>3 843 240</u>	<u>3 889 520</u>
Cash flows related to financing activities	<u>(112 492)</u>	<u>15 282</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1 656 308	11 093 269
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 865 000</u>	<u>(9 228 269)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$3 521 308</u></u>	<u><u>\$1 865 000</u></u>

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Current projects

Current projects are recorded using the proportional performance method, determined using the invoice value of labour and purchases posted to contracts vs. the total estimated value.

- 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.

Fixed assets

Fixed assets are recorded at cost.

The building erected on a plot of land belonging to the Communauté urbaine de Québec is depreciated according to the straight-line method over the 38-year period during which the Centre has a right to use this land. The Lac-Saint-Charles test bank is amortized using the straight-line method over an 8-year period. Other fixed assets are depreciated using the diminishing balance method at the following rates:

Buildings and land improvement	5% and 8%
Furniture and equipment	15%, 20% and 40%
Data processing equipment	25%
Automotive equipment	30%

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**2. ACCOUNTING POLICIES (cont'd)****Fixed assets (cont'd)**

The Centre regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

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

Intangible assets

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

	Method	Rate
Patens and right to use generic technologies	Straight-line	20%
Software	Diminishing balance	30%

Deferred revenue

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

Deferred credits

Subsidies related to fixed assets are deferred and amortized at the same rate as the fixed assets they finance.

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 the tenants to reimburse a proportional share of property taxes. These amounts are recorded in the period in which the related expenses are incurred.

Pension plans

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

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.

Cash and cash equivalents

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

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. ACCOUNTS RECEIVABLE**

	2006	2005
Clients	\$2 916 768	\$3 216 455
Gouvernement du Québec	667 400	667 000
Short-term portion of long-term receivables	123 652	49 733
	<u>\$3 707 820</u>	<u>\$3 933 188</u>

4. INVENTORY

	2006	2005
Parts and supplies	\$88 695	\$153 145
Products (*)	508 717	677 827
	<u>\$597 412</u>	<u>\$830 972</u>

(*) At March 31, 2006, the Centre wrote down product stocks by a \$170 782 (2005: \$498 603). This expenditure was recorded to "Direct project costs".

5. LONG-TERM RECEIVABLES

	2006	2005
Advance on wages to employees (*)	\$426 219	\$497 520
Subsidy receivable – Gouvernement du Québec	917 722	946 526
	1 343 941	1 444 046
Short-term portion	(123 652)	(49 733)
	<u>\$1 220 289</u>	<u>\$1 394 313</u>

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

6. INVESTMENTS

	2006	2005
Investment in a satellite corporation: Intellium Technologies inc., (participation of 50%) (*)		
Other investments		
Shares in a private corporation		\$1
Shares in a public corporation	\$147 383	85 633
	<u>\$147 383</u>	<u>\$85 634</u>

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

- 500 000 class B, voting and participating shares (2005: 500 000);
- 500 000 class C, non-voting and non-participating shares, redeemable (2005: 500 000).

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**6. INVESTMENTS (cont'd)**

This entire investment was written down in 2004.

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

7. FIXED ASSETS

	2006		2005
	Cost	Accumulated Depreciation	Net value
Tangible assets			
Land	\$1 239 436		\$1 239 436
Building (*)	21 681 280	\$13 586 902	8 094 378
Furniture and equipment	22 046 304	16 661 787	5 384 517
Data processing equipment	7 291 008	6 286 405	1 004 603
Automobile equipment	266 715	193 294	73 421
	<u>52 524 743</u>	<u>36 728 388</u>	<u>15 796 355</u>
			<u>15 671 690</u>
Intangible assets			
Patens and right to use generic technologies	1 558 565	644 925	913 640
Software	3 801 202	3 370 850	430 352
	<u>5 359 767</u>	<u>4 015 775</u>	<u>1 343 992</u>
	<u>\$57 884 510</u>	<u>\$40 744 163</u>	<u>\$17 140 347</u>
			<u>\$17 523 207</u>

(*) The Centre acquired the right to use a piece of land belonging to the Communauté urbaine de Québec. A building, with a net book value of \$746 181 as at March 31, 2006 (2005: \$776 952) will be transferred to the CUQ at no cost on July 24, 2030.

8. BANK LOAN

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

9. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Suppliers and other accrued liabilities	\$2 411 491	\$2 769 966
Salaries and fringe benefits	1 842 921	2 073 431
Provision for vacation time	2 249 397	2 314 578
Severance pay	18 753	432 378
	<u>\$6 522 562</u>	<u>\$7 590 353</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. LONG-TERM DEBT**

	<u>2006</u>	<u>2005</u>
Advance from the Ministère des Finances (*)	\$6 545 138	\$6 312 981
Note payable to the Financing Fund, fixed rate of 4.58%, repayable in semi-annual instalments of \$71 709 as of October 1, 2005, guaranteed by a moveable hypothec without delivery, maturing April 1, 2013	896 793	939 121
Borrowings at fixed rates of 1.90% to 9.25%, repayable in 60 monthly instalments of \$379 to \$1 378, guaranteed by rolling stock, maturing at various dates until February 2010	<u>36 767</u> 7 478 698	<u>60 651</u> 7 312 753
Portion maturing within one year	<u>(6 659 133)</u>	<u>(6 379 192)</u>
	<u>\$819 565</u>	<u>\$933 561</u>

(*) The advance from the Ministère des Finances, bearing interest at the National Bank of Canada's prime rate, is repayable in its entirety when it comes due on March 31, 2007. The interest is capitalized and payable no later than the date the advance expires. At March 31, 2006, the preferential rate was 5.5% (2005: 4.25%).

Interest charges on the long-term debt for the fiscal year total \$276 835 (2005: \$228 913) and include interest in the amount of \$232 157 (2005: \$200 514) that was capitalized during the fiscal year.

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

2007	\$6 659 133
2008	116 192
2009	121 338
2010	125 577
2011	123 121

11. CAPITAL STOCK

	<u>2006</u>	<u>2005</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>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. CASH FLOWS**

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

	2006	2005
Debtors	\$299 287	\$10 863 110
Projects in progress	1 049 181	306 548
Inventory	233 560	289 041
Prepaid expenses	36 206	(1 667)
Accounts payable and accruals	(1 472 803)	(604 570)
Deferred revenue	383 355	(346 250)
	<u>\$528 786</u>	<u>\$10 506 212</u>

Interest paid during the fiscal year amounted to \$434 081 (2005: \$452 754).

At March 31, 2006, the item Accounts payable and accrued interest included fixed asset acquisitions representing \$825 433 (2005: \$420 421).

13. PENSION PLANS

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

The Centre's contributions charged to the year-end statement amount to \$860 200 (2005: \$744 842). The Centre's liability towards these Government plans is restricted to its contributions as an employer.

14. 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.

15. FINANCIAL INSTRUMENTS**Fair value**

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

	2006		2005	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Long-term receivables	\$1 343 941 ⁽¹⁾	\$1 343 941	\$1 444 046 ⁽¹⁾	\$1 444 046
Long-term investment	147 383	344 177	85 634	47 574
	<u>\$1 491 324</u>	<u>\$1 688 118</u>	<u>\$1 529 680</u>	<u>\$1 491 620</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

15. FINANCIAL INSTRUMENTS (cont'd)
Fair value (cont'd)

	2006		2005	
	Book value	Fair value	Book value	Fair value
Financial liabilities:				
Long-term debts (including short-term portion)	\$7 478 698	\$7 506 017	\$7 312 753	\$7 307 158

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

Credit risk

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

Exchange risk

The 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 the Centre's results and financial position.

16. COMPARATIVE FIGURES

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

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

The financial statements of the Centre de recherche industrielle du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

Serge Guérin
President and Chief Executive Officer

Lionel Vézina, CA
Vice-President, Finance and Administration

Québec, June 5, 2006

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, 2006, the statement of income and deficit and the cash flow statement for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 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, June 5, 2006

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

REVENUE AND ACCUMULATED SURPLUS
for the period from December 6, 2005 to March 31, 2006

	<u>2006</u>
REVENUES	\$98 744 512
Cost of merchandise sold or services rendered (Note 3)	<u>88 348 913</u>
Gross profit	10 395 599
Gouvernement du Québec subsidy	2 348 100
Other proceeds	<u>723 767</u>
	<u>13 467 466</u>
ADMINISTRATIVE EXPENSES	
Administrative costs	11 090 299
Administrative costs invoiced by the Gouvernement du Québec	253 051
Amortization of fixed assets	342 312
Amortization of intangible assets	105 640
Financial expenses	<u>52 664</u>
	<u>11 843 966</u>
PROFIT BEFORE THE FOLLOWING ELEMENT	1 623 500
Loss on disposal of intangible assets	<u>1 617 245</u>
NET INCOME AND ACCUMULATED SURPLUS	<u>\$6 255</u>

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

BALANCE SHEET

	March 31, 2006	December 6, 2005
ASSETS		
Current assets		
Cash on hand	\$9 384 464	\$15 340 275
Accounts receivable (Note 4)	105 411 393	90 879 701
Inventory (Note 5)	7 668 812	6 852 934
Prepaid expenses	15 021 813	6 199 449
	<u>137 486 482</u>	<u>119 272 359</u>
Instrument receivable from the Gouvernement du Québec (Note 6)	12 859 455	12 974 687
Fixed assets (Note 7)	24 811 974	20 716 864
Intangible assets (Note 8)	234 460 495	212 359 438
Deferred expenses	<u>1 863 246</u>	<u>3 319 477</u>
	<u>\$411 481 652</u>	<u>\$368 642 825</u>
LIABILITIES		
Current liabilities		
Short-term borrowings (Note 9)	\$253 470 858	\$223 086 522
Notes payable (Note 10)	6 303 105	4 576 406
Accounts payable and accruals (Note 11)	61 612 826	52 146 288
Instalments on the long-term debt (Note 12)	296 782	
Prepaid proceeds (Note 13)	3 386 530	3 157 590
	<u>325 070 101</u>	<u>282 966 806</u>
Long-term debt (Note 12)	21 206 939	20 229 859
Prepaid proceeds (Note 13)	204 565	352 690
Provision for sick leave	<u>15 237 658</u>	<u>15 337 336</u>
	<u>361 719 263</u>	<u>318 886 691</u>
EQUITY		
Gouvernement du Québec contribution	49 756 134	49 756 134
Accumulated surplus	6 255	
	<u>49 762 389</u>	<u>49 756 134</u>
	<u>\$411 481 652</u>	<u>\$368 642 825</u>
COMMITMENTS (Note 14)		
SUBSEQUENT EVENT (Note 19)		

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
André Trudeau, President-CEO

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**CASH FLOW**

for the period from December 6, 2005 to March 31, 2006

	<u>2006</u>
OPERATING ACTIVITIES	
Net income for the year	\$6 255
Elements not affecting cash flows	
Transfer of prepaid proceeds	80 815
Amortization of fixed assets	1 632 657
Amortization of intangible assets	3 038 582
Loss on disposal of intangible assets	<u>1 617 245</u>
	6 375 554
Change in non-cash elements linked to operations (Note 15)	<u>(20 783 813)</u>
Cash flows used for operating activities	<u>(14 408 259)</u>
INVESTMENT ACTIVITIES	
Acquisition of fixed assets	(4 392 593)
Acquisition of intangible assets	<u>(19 265 994)</u>
Cash flows used for investment activities	<u>(23 658 587)</u>
FINANCING ACTIVITIES (Note 15)	
Net increase in short-term borrowings	30 384 336
Net increase in notes payable	<u>1 726 699</u>
Cash flows providing by financing activities	<u>32 111 035</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(5 955 811)
CASH ON HAND, BEGINNING OF YEAR	<u>15 340 275</u>
CASH ON HAND, END OF YEAR	<u>\$9 384 464</u>

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

for the period from December 6, 2005 to March 31, 2006

1. CONSTITUTION ET OBJET

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

The Centre de services partagés du Québec replaces the director general of purchasing designated under section 3 of the Act respecting the Service des achats du gouvernement (c. S-4), the Minister of Relations with the Citizens and Immigration for duties related to the Act respecting government to departments and public bodies (c. S-6.1), conferred on it by Order-in-Council 564-2003 of April 29, 2003, the Minister responsible for the Act respecting government to departments and public bodies for the duties he exercised under this legislation, with the exception of the duties related to the Service aérien gouvernemental. The Centre acquires the related rights and obligations. Assets and liabilities were transferred at book value.

In pursuing its mission, the Centre may exercise functions 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 slated for payment of its obligations. Any surplus is kept by the Centre unless the government decides otherwise.

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Inventory

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

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

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

Fixed assets are recorded at cost or at the value assigned by the Gouvernement du Québec and are amortized over their service life using 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

Intangible assets

Intangible assets, comprising computer systems, software and computer system developments, are recorded at cost. The cost includes direct labour, interest and other costs directly related to system development. They are amortized over their expected service life using the straight-line method 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 during which the depreciation was determined.

Computer systems and software	Maximum 5 years
Computer systems development	Maximum 5 years

Computer systems development costs are amortized as of when they become operational.

Interest on debts linked to computer system developments are capitalized during the development period.

Deferred expenses

Deferred expenses comprise primarily prepaid amounts on maintenance contracts and are amortized using the straight—line method over the contracts' duration.

Sick leave and vacation time

The obligations arising from sick leave and vacation time owed to the Centre's employees are recorded as 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 interenterprise government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Proceeds reporting

The proceeds resulting from the delivery of services and sale of goods are 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 determined or can be determined;
- Recovery is reasonable certain.

Prepaid proceeds are transfers to results as services are rendered.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Cash and cash equivalents

The Centre's policy consists in presenting under cash and cash equivalents, 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.

3. COST OF MERCHANDISE SOLD OR SERVICES RENDERED

	2006
Direct costs	\$84 125 431
Amortization of fixed assets	1 290 345
Amortization of intangible assets	2 932 942
Financial expenses	195
	<u>\$88 348 913</u>

4. ACCOUNTS RECEIVABLE

	March 31, 2006	December 6, 2005
Customer accounts	\$49 954 221	\$40 016 071
Accounts receivable	868 411	482 447
Gouvernement du Québec	45 432 487	42 077 100
Short-term portion of Gouvernement du Québec note receivable	8 787 917	8 136 390
Other	368 357	167 693
	<u>\$105 411 393</u>	<u>\$90 879 701</u>

5. INVENTORY

	March 31, 2006	December 6, 2005
Merchandise intended for sale		
Furnishings and furniture	\$1 757 271	\$1 781 597
Postal values	2 468 888	1 222 698
Telephones received free of charge	1 099 223	1 545 838
Computer parts	177 425	141 039
Publications	1 616 325	1 757 216
Photocopying raw materials	199 111	199 302
Publication products under way	350 569	205 244
	<u>\$7 668 812</u>	<u>\$6 852 934</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

6. GOUVERNEMENT DU QUÉBEC NOTE RECEIVABLE

The note receivable from the Gouvernement du Québec is interest-free and represents sums to be transferred to the Centre for banks of sick leave and vacation time earned by employees before December 6, 2005. The note receivable will expire in March 2015.

	March 31, 2006	December 6, 2005
Note receivable	\$21 647 372	\$21 111 077
Note receivable in the short term	8 787 917	8 136 390
Note receivable in the long term	<u>\$12 859 455</u>	<u>\$12 974 687</u>

The Gouvernement du Québec note receivable is encashable as follows:

2007	\$8 787 917
2008	1 906 694
2009	1 901 732
2010	1 877 131
2011	1 877 131
2012 and thereafter	5 296 767
	<u>\$21 647 372</u>

7. FIXED ASSETS

	March 31, 2006			December 6, 2005
	Cost	Accumulated depreciation	Net value	Net value
Specialized equipment	\$22 849 228	\$19 213 314	\$3 635 914	\$2 365 897
Radio communications infrastructure	4 146 561	3 157 660	988 901	732 085
Data processing equipment	44 941 606	27 118 043	17 823 563	15 966 551
Office furniture and equipment	2 407 404	1 658 278	749 126	100 717
Automotive equipment	1 026 430	915 573	110 857	139 078
Leasehold improvements	5 836 881	4 333 268	1 503 613	1 412 536
	<u>\$81 208 110</u>	<u>\$56 396 136</u>	<u>\$24 811 974</u>	<u>\$20 716 864</u>

8. INTANGIBLE ASSETS

	March 31, 2006			December 6, 2005
	Cost	Accumulated depreciation	Net value	Net value
Computer systems and software	\$32 298 610	\$22 781 915	\$9 516 695	\$9 773 110
Computer systems development				
Investments in SAGIR project ¹	147 432 958		147 432 958	136 334 769
Investments in RENIR project ¹	73 674 998		73 674 998	64 090 184
Other computer systems	3 835 844		3 835 844	2 161 375
	<u>\$257 242 410</u>	<u>\$22 781 915</u>	<u>\$234 460 495</u>	<u>\$212 359 438</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

8. INTANGIBLE ASSETS (cont'd)

Interest capitalized during the fiscal year totalled \$2 491 186.

- 1 Investments in the SAGIR project (integrated resource management business strategy) and the RENIR project (National integrated radio communications network) will be amortized once they become operational.

9. SHORT-TERM BORROWINGS

The Centre has three credit lines with the Financing Fund bearing interest at the average 30-day bank acceptance rate plus 0.3%. The amounts are authorized by the Gouvernement du Québec up to \$425 million. The rate at March 31, 2006 was 4.17% (December 6: 3.59%).

10. NOTES PAYABLE

At March 31, 2006, the Centre held notes payable to the Financing Fund, bearing interest at 3.84% and 3.86%, repayable respectively on April 4 and 5, 2006 (at December 6, 2005, the interest rate was 3.25% and the note was repayable on December 8, 2005).

11. ACCOUNTS PAYABLE AND ACCRUALS

	March 31, 2006	December 6, 2005
Suppliers and accrued liabilities	\$52 321 267	\$44 256 596
Gouvernement du Québec	640 397	102 458
Salaries and fringe benefits payable	983 201	1 331 389
Vacation time payable	6 574 040	5 773 741
Interest payable	1 403	2 094
Other	1 092 518	680 010
	<u>\$61 612 826</u>	<u>\$52 146 288</u>

12. LONG-TERM DEBT

	March 31, 2006	December 6, 2005
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	1 273 862	
	<u>21 503 721</u>	<u>20 229 859</u>
Instalments payable in the short term	<u>296 782</u>	
	<u>\$21 206 939</u>	<u>\$20 229 859</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

12. LONG-TERM DEBT (cont'd)

Capital payments for the next 5 fiscal years and thereafter on the borrowing from the Gouvernement du Québec are as follows:

2007	\$296 782
2008	184 782
2009	180 703
2010	180 703
2011	180 473
2012 and thereafter	<u>250 419</u>
	<u>\$1 273 862</u>

13. PREPAID PROCEEDS

	<u>March 31, 2006</u>	<u>December 6, 2005</u>
Prepaid proceeds	\$3 591 095	\$3 510 280
Short-term prepaid proceeds	<u>3 386 530</u>	<u>3 157 590</u>
Long-term prepaid proceeds	<u>\$204 565</u>	<u>\$352 690</u>

14. 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 equipments needed for its deployment, in the amount of \$12 304 354 broken down as follows:

2007	\$7 018 927
2008	<u>5 285 427</u>
	<u>\$12 304 354</u>

Leasing contracts

The Centre has made commitments under various leasing contracts for software and photocopiers for minimum payments of \$4 471 337 broken down as follows:

2007	\$1 845 226
2008	1 851 127
2009	622 104
2010	<u>152 880</u>
	<u>\$4 471 337</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

14. COMMITMENTS (cont'd)**Other**

The Centre has also contracted other commitments for maintenance and printing services, acquisition of inventories and fixed assets for a total of \$15 509 883 broken down as follows:

2007	\$5 782 487
2008	6 549 019
2009	1 030 126
2010	1 059 126
2011	1 089 125
	<u>\$15 509 883</u>

15. CASH FLOWS

Interest paid by the Centre during the fiscal year totalled \$53 550.

Further, \$1 273 862 was invested in fixed assets during the year in consideration for a long-term debt of the equivalent amount.

Finally, during the fiscal year, fixed assets were acquired for \$32 484 651, including \$14 568 133 for suppliers and accrued costs at March 31, 2006 (December 6: \$7 015 931). Disbursements totalling \$23 658 587 were made to purchase fixed assets.

Changes in the non-cash elements linked to operations

	March 31, 2006
Accounts receivable	\$(13 880 165)
Inventory	(815 878)
Prepaid expenses	(8 822 364)
Deferred expenses	1 456 231
Gouvernement du Québec note receivable	(536 295)
Accounts payable and accruals	1 914 336
Provision for sick leave	(99 678)
	<u>\$(20 783 813)</u>

16. FUTURE FRINGE BENEFITS**Pension plans**

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

The Centre's contributions charged to the year-end statement amount to \$629 746. The Centre's liability towards these Government plans is restricted to its contributions as an employer.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the period from December 6, 2005 to March 31, 2006

17. 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 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.

18. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments represents a reasonable estimate of their fair value, given their pending maturity. The fair value of the Gouvernement du Québec note receivable cannot be assessed, given the absence of a market for this type of asset.

The fair value of sums owed to the Gouvernement du Québec, interest-free and without terms of repayment, is considered equivalent to its fair book value, given the absence of a market for this type of long-term debt.

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.

19. SUBSEQUENT EVENT

As per agreements made in the months following the fiscal year-end, new activities were transferred to the Centre by the Secrétariat du Conseil du trésor and the Ministère des Services gouvernementaux, namely a human resources activity sector and office automation support for applications and servers.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Centre de services partagés du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All financial information contained in the remainder of the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

André Trudeau
President-CEO

Michel Charbonneau
Director General, Strategic Management Services

Québec, November 30, 2006

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheets of the Centre des services partagés du Québec as at December 6, 2005 and as at March 31, 2006 and the results and accumulated surplus and cash flow statements for the period from December 6, 2005 to March 31, 2006. These financial statements are the responsibility of the Centre's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

Given that the Centre had not inventoried its stocks at December 6, 2005, I was unable to check inventory amounts at that date. Since opening inventory is one of the elements used to establish operating results and cash flows, I was unable to determine whether certain adjustments in the cost of merchandise sold or services rendered, net profit, opening equity and cash flows from operations were necessary.

In my opinion, with the exception of the effect of adjustments, discussed in the previous paragraph, which I might have deemed necessary had I been able to determine inventory amounts at December 6, 2005, the balance sheet at this date and that results and accumulated surplus and cash flows statements accurately reflect the Centre's financial situation, in all important aspects, December 6, 2005 as well as the Centre's operating results and cash flows for the fiscal period December 6, 2005 – March 31, 2006 in keeping with the accounting principles generally recognized in Canada. Furthermore, in my opinion, the March 31, 2006 balance sheet accurately reflects, in all important aspects, the Centre's financial position at this date in keeping with the accounting principles generally recognized in Canada.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 30, 2006

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

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Contributions (Note 3)		
Ministère de l'Emploi et de la Solidarité sociale	\$33 700	\$33 700
Commission de la construction du Québec	1 005 000	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
Other	2 479	2 267
	<u>1 242 279</u>	<u>1 242 067</u>
EXPENSES		
Salaries and fringe benefits	777 716	750 386
Transport and communications	49 830	49 465
Professional and administrative services	139 076	117 254
Maintenance and repairs	15 781	23 749
Rent	130 641	129 510
Materials and supplies	16 981	9 658
Depreciation of fixed assets	83 635	78 623
	<u>1 213 660</u>	<u>1 158 645</u>
EXCESS REVENUES OVER EXPENSES	28 619	83 422
SURPLUS, BEGINNING OF YEAR	<u>305 954</u>	<u>222 532</u>
SURPLUS, END OF YEAR	<u>\$334 573</u>	<u>\$305 954</u>

The notes are an integral part of these financial statements.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

BALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$600	\$600
Accounts receivable	16 853	3 694
Advances to the Consolidated Revenue Fund, interest-free, no repayment terms	<u>484 182</u>	<u>442 329</u>
	501 635	446 623
Fixed assets (Note 4)	<u>112 056</u>	<u>177 816</u>
	<u>\$613 691</u>	<u>\$624 439</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$32 965	\$38 953
Provision for sick leave and vacation time (Note 6)	246 153	279 532
SURPLUS	<u>334 573</u>	<u>305 954</u>
	<u>\$613 691</u>	<u>\$624 439</u>

COMMITMENTS (Note 8)

Commissaire de l'industrie de la construction,
Josette Béliveau

The notes are an integral part of these financial statements.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Revenue reporting

Contributions are reported in the fiscal year in which they are received or receivable if the amount receivable can be reasonably estimated and it is relatively certain to be received.

Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated service life using the straight-line method at 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 the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. 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 interentreprise 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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. CONTRIBUTIONS

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

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

4. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Fixed assets				
Leasehold improvements	\$134 320	\$41 264	\$93 056	\$106 488
Office automation and data processing equipment	62 077	43 077	19 000	12 910
	<u>196 397</u>	<u>84 341</u>	<u>112 056</u>	<u>119 398</u>
Intangible assets				
Computer systems	292 093	292 093		58 418
	<u>\$488 490</u>	<u>\$376 434</u>	<u>\$112 056</u>	<u>\$177 816</u>

Disbursement related to acquisitions for the fiscal year totalled \$17 874 (2005: \$3 816).

5. 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.

6. FUTURE BENEFITS PAYMENTS

Pension plans

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

The Commissaire's contributions charged to the year-end statement amount to \$38 923 (2005: \$26 348). The liability of the Commissaire towards these Government plans is restricted to its contributions as an employer.

COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

	2006			2005
	Sick leave	Vacation time	Total	Total
Opening balance	\$187 785	\$91 747	\$279 532	\$281 876
Charge for the year	13 034	63 907	76 941	65 429
Benefits paid during the year	(41 456)	(68 864)	(110 320)	(67 773)
Closing balance	<u>\$159 363</u>	<u>\$86 790</u>	<u>\$246 153</u>	<u>\$279 532</u>

7. FINANCIAL INSTRUMENTS

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

8. 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 \$300 000 and include the following instalments over the next three fiscal years: 2007, \$100 000; 2008, \$100 000; 2009, \$100 000.

The Commissaire also committed to paying \$224 853 under office space rental leases, which expire in October 2007 and March 2008 with an option to renew on expiry. A clause provide for rent review to reflect increased operating costs or taxes.

Instalments over the next two fiscal years, based on rental amounts at March 31, 2006, are:

2007	\$122 029
2008	<u>102 824</u>
	<u>\$224 853</u>

9. SUBSEQUENT EVENT

The Gouvernement du Québec accepted the proposal of the working group mandated to study government bodies in 2005-2006 to abolish the Commissaire de l'industrie de la construction and transfer its duties to the Commission des relations du travail. A bill will have to be tabled and adopted by the National Assembly to enact this decision.

10. COMPARATIVE FIGURES

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

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

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

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

Josette Béliveau
Commissaire de l'industrie de la construction

Québec, July 31, 2006

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, 2006 and the income and surplus statement for the year then ended. These financial statements are the responsibility of Commissaire management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

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

Renaud Lachance, CA
Auditor General of Québec

Québec, July 31, 2006

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

NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2005
(in thousands of dollars)

	2005	2004
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	38 476 710	33 935 944
Employer contributions fund	7 094	3 810
Supplemental pension plans fund	445 128	410 812
	<u>38 928 932</u>	<u>34 350 566</u>
Accounts receivable		
Employee contributions	120 929	107 541
Employer contributions	4 305	3 486
Amounts receivable from the Gouvernement du Québec	80 182	98 551
Amounts receivable – transfers	3 812	3 273
	<u>209 228</u>	<u>212 851</u>
Cash on hand	7 819	5 934
	<u>39 145 979</u>	<u>34 569 351</u>
LIABILITIES		
Contribution refunds and pensions payable	16 181	12 807
Surplus employee contributions to be refunded	27 007	29 430
Administrative expenses payable	9 679	6 816
Owed to the Gouvernement du Québec - current account	1 362	6 167
	<u>54 229</u>	<u>55 220</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u>39 091 750</u>	<u>34 514 131</u>

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

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
And Material Resources

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

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	849 183	666 494
Contributions of independent employers	87 176	80 634
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	1 460 339	1 249 224
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	3 190 756	2 260 936
Interest income	<u>2 844</u>	<u>2 530</u>
	5 590 298	4 259 818
Amounts received or receivable from the Gouvernement du Québec		
Regular service	892 464	801 653
Transferred service	<u>190 387</u>	<u>180 226</u>
	1 082 851	981 879
	<u>6 673 149</u>	<u>5 241 697</u>
DECREASE IN NET ASSETS		
Benefits paid		
General plan		
Pensions	1 777 646	1 571 037
Contribution refunds, including interest	76 267	83 427
Transfers, including interest	60 377	63 266
Transfer of contributions cumulated by those targeted, including interest to Pension Plan of Management Personnel	118 439	111 375
Supplemental pension plans		
Pensions	20 990	20 016
Contribution refunds, including interest	340	462
Transfers, including interest	95	14
Administrative expenses	<u>41 376</u>	<u>34 523</u>
	2 095 530	1 884 120
NET INCREASE FOR THE YEAR	4 577 619	3 357 577
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>34 514 131</u>	<u>31 156 554</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u><u>39 091 750</u></u>	<u><u>34 514 131</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE RREGOP

The following description of the Government and Public Employees Retirement Plan (RREGOP) is given for information purposes only. For more complete information concerning this plan, please consult the Act respecting the Government and Public Employees Retirement Plan (R.S.Q., c. R-10).

a) General information

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

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

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$680 million and the remainder is assumed by the Government.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to the administration of this plan are assumed by the RREGOP and divided equally between the employee and employer contribution funds.

c) Retirement benefits

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

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

The pension is obtained by multiplying the average pensionable salary for the five best-paid years by 2% per year of service. It can be added to pension credits acquired under the redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluations of certain years of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner aged 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is or are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the RREGOP before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the RREGOP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

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

December 31, 2005

(in thousands of dollars)

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

Pension benefits under the RREGOP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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, free of 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

The Act respecting the Government and Public Employees Retirement Plan does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those for contributors and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

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

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the Caisse de dépôt et placement du Québec is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act. The same conditions apply to payment of benefits related to pension credits acquired by buy-outs payable to RREGOP and Pension Plan of Management Personnel beneficiaries (PPMP).

The amounts needed to pay the additional benefits resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund. Since the \$680 million maximum assumed by the employees was reached, the Government paid the amounts required into this fund to cover the value of benefits acquired during the fiscal year.

The amounts needed to pay benefits for pension credits acquired through the transfer of supplemental pension plans for RREGOP and PPMP beneficiaries are taken from the Supplemental Pension Plan Fund in which they had been deposited when the transfers occurred.

The amounts needed to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005				2004
	Employee contributions fund	Employer contributions fund	SPP fund **	Total	Total
Participation deposits in individual funds – at fair value (cost 2005: \$41 767 755, 2004: \$37 066 874) *	38 167 242		441 725	38 608 967	34 189 663
Demand deposits in the General Fund (advances)	5 906	7 094	(110)	12 890	(10 664)
Revenue receivable from individual funds	303 562		3 513	307 075	171 567
	<u>38 476 710</u>	<u>7 094</u>	<u>445 128</u>	<u>38 928 932</u>	<u>34 350 566</u>

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

December 31, 2005

(in thousands of dollars)

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

	2005			2004
	Employee contributions fund	Employer contributions fund	SPP fund **	Total
* Cost of units				32 922 980
Cumulated gains realized but not yet distributed by individual portfolios				8 844 775
				<u>41 767 755</u>
				<u>30 847 397</u>
				<u>6 219 477</u>
				<u>37 066 874</u>

** Supplemental pension plans

5. FINANCIAL INSTRUMENTS

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

6. ASSETS AVAILABLE FOR BENEFITS

	2005			2004
	Employee contributions	Employer contributions	Total	Total
Regular service	38 178 565	214 884	38 393 449	33 874 026
Transferred service		702	702	456
Pension credits acquired by buy-outs	252 500		252 500	228 864
Supplemental pension plans	445 099		445 099	410 785
	<u>38 876 164</u>	<u>215 586</u>	<u>39 091 750</u>	<u>34 514 131</u>

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognised accounting policies applicable to the public sector in Canada. Under the Act respecting the Government and Public Employees Retirement Plan, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

The pension costs for the RREGOP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortisation of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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**

	2005	2004
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	22 064 249	20 252 810
Increase		
Pension costs		
Current service	1 069 486	1 078 126
Past service	111 147	111 147
Interest	1 577 182	1 491 927
	2 757 815	2 681 200
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	803 209	782 449
Inter-plan transfers for past service	126 898	87 312
	930 107	869 761
Net increase for the year	1 827 708	1 811 439
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	23 891 957	22 064 249
Estimated liability recorded as at December 31	25 484 980	23 616 063
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	2 288 676	2 280 083
Estimated liability recorded as at December 31	2 279 431	2 292 397

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 (\$54 619 billion as at March 31, 2005). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which is slated for the RREGOP.

Financing regular service

In keeping with the Act respecting the Government and Public Employees Retirement Plan, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and collective agreements into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the Government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the RREGOP. The fair value of this fund was estimated at \$39 889 billion as at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

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

However, in its consolidated financial statements for the year ended as at March 31, 2005, the Government does not recognize having commitments to the RREGOP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the RREGOP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information concerning the various actuarial valuations.

Government management employee associations presented a petition to the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the RREGOP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the RREGOP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since the evidence shows that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date. In August 2004, the petitioners appealed this ruling.

For the year, the Government's contribution for regular service corresponds to 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 based on the annual rate of return of the funds of the RREGOP, including the gains made but not yet distributed by the specialized portfolios, entrusted to the Caisse de dépôt et placement du Québec.

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

	2005	2004
Opening balance	35 379 207	32 164 623
Increase		
Gouvernement du Québec contributions	730 178	529 505
Interest	5 110 642	2 896 615
Unrealized (losses) gains	(293 628)	721 870
	40 926 399	36 312 613
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	910 770	807 085
Inter-plan transfers for past service	126 529	126 321
Closing balance	39 889 100	35 379 207

The equivalent cost value was \$43 477 946 000 at December 31, 2005 (\$38 674 425 000 at December 31, 2004).

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

December 31, 2005

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the RREGOP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions used by CARRA are those deemed probable by its actuaries in the actuarial valuation prepared using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$45 637 793 000 at December 31, 2002 for regular service and additional benefits, and \$3 075 691 000 at December 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 \$61 350 272 000 at December 31, 2005.

	2005			2004
	Employees	Employers	Total	Total
Regular service	28 699 128	29 299 343	57 998 471	54 058 626
Transferred service		2 606 926	2 606 926	2 519 052
Pension credits acquired by buy-out	183 315	256 640	439 955	382 322
Supplemental pension plans	304 920		304 920	305 009
	<u>29 187 363</u>	<u>32 162 909</u>	<u>61 350 272</u>	<u>57 265 009</u>

The obligations related to benefits for regular service include \$962 843 000 (\$918 286 000 at December 31, 2004) for additional benefits.

Change in accrued pension obligations

	2005	2004
Actuarial present value of accrued pension benefits		
- beginning of year	<u>57 265 009</u>	<u>48 811 939</u>
Increase		
Actuarial loss	68 230	1 136 647
Changes in actuarial assumptions	105 266	3 226 856
Corrections to participant data		16 641
Interest	3 752 907	3 493 568
Benefits accrued	<u>2 303 353</u>	<u>2 316 324</u>
	<u>6 229 756</u>	<u>10 190 036</u>
Decrease		
Corrections to participant data	15 720	
Benefits paid	1 934 080	1 727 748
Inter-plan transfers	<u>194 693</u>	<u>9 218</u>
	<u>2 144 493</u>	<u>1 736 966</u>
Net increase for the year	<u>4 085 263</u>	<u>8 453 070</u>
Actuarial present value of accrued pension benefits		
- end of year	<u>61 350 272</u>	<u>57 265 009</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

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

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

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

In fact, since the creation of the RREGOP, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service and additional benefits was \$26 587 775 000 as at December 31, 2002 and \$38 178 565 000 as at December 31, 2005, which corresponds to the market value of the employee fund as at each of these dates.

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

	2005			2004
	Employee contributions fund	Employer contributions fund	SPP fund *	Total
Net investment income from individual funds	1 443 044		17 016	1 460 060
Interest on demand deposits in the General Fund	429	(67)	(83)	279
	<u>1 443 473</u>	<u>(67)</u>	<u>16 933</u>	<u>1 460 339</u>
Change in fair value				
Gains from the sale of investments	837 165		9 871	847 036
Gains realized in the individual portfolios	2 594 726		30 572	2 625 298
Unrealized (losses) gains	<u>(279 939)</u>		<u>(1 639)</u>	<u>(281 578)</u>
	<u>3 151 952</u>		<u>38 804</u>	<u>3 190 756</u>

* Supplemental pension plans.

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

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding regular service and additional benefits resulting from the revaluation of certain years of service acquired at December 31, 2002. This estimate was carried out according to contributors' profiles as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$45 637 793 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of Actuarial Services, Development
and Strategic Planning

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, January 24, 2005

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired by buy-out for past service according to contributors' profiles as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$430 078 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2003, CARRIED OUT FOR PENSION CREDITS ACQUIRED BY BUY-OUT OF PAST SERVICE AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

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

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan according to contributors' profiles as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$2 645 613 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2003, CARRIED OUT FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

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

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits awarded certain retired social affairs sector employees according to contributors' profiles as at December 31, 2004 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$606 135.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2004, CARRIED OUT FOR PENSION CREDITS AWARDED CERTAIN RETIRED SOCIAL AFFAIRS SECTOR EMPLOYEES AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 9, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the supplemental pension plans to the Plan according to contributors' profiles as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$301 464 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE SUPPLEMENTAL PENSION PLANS TO THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AS AT DECEMBER 31, 2001

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 4, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

AUDITOR'S REPORT

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005, 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 24, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF MANAGEMENT PERSONNEL

(S.Q. 2001, c.31)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	6 414 835	5 529 434
Employer contributions fund	<u>43</u>	<u>30</u>
	6 414 878	5 529 464
Accounts receivable		
Employee contributions	14 907	10 913
Employer contributions	1 031	579
Amounts receivable from the Gouvernement du Québec	53 667	55 460
Amounts receivable – transfers	<u>1 451</u>	<u>415</u>
	71 056	67 367
Cash on hand	<u>940</u>	<u>823</u>
	6 486 874	5 597 654
LIABILITIES		
Contribution refunds and pensions payable	2 987	3 161
Surplus employee contributions to be refunded	1 847	1 964
Administrative expenses payable	<u>861</u>	<u>647</u>
	5 695	5 772
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u>6 481 179</u>	<u>5 591 882</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (Note 7)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL**

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	124 015	78 678
Transfer of contributions cumulated by those targeted from the Government and Public Employees Retirement Plan, including interest	118 439	111 375
Contributions of independent employers	17 847	15 472
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	245 244	204 735
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	544 991	373 277
Interest income	<u>307</u>	<u>233</u>
	1 050 843	783 770
Amounts received or receivable from the Gouvernement du Québec		
Regular service	221 796	163 718
Transferred service	84 853	74 147
Regular service – Senior officials	<u>27 307</u>	<u>24 348</u>
	333 956	262 213
	<u>1 384 799</u>	<u>1 045 983</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions (Note 10)	453 508	395 517
Contribution refunds, including interest	3 654	7 118
Transfers, including interest	18 069	18 579
Administrative expenses	<u>3 662</u>	<u>3 232</u>
	478 893	424 446
Amounts deposited in the Consolidated Revenue Fund (Note 3)	<u>16 609</u>	<u>14 115</u>
	495 502	438 561
NET INCREASE FOR THE YEAR	889 297	607 422
NET ASSETS AVAILABLE FOR BENEFITS		
– BEGINNING OF YEAR	<u>5 591 882</u>	<u>4 984 460</u>
NET ASSETS AVAILABLE FOR BENEFITS		
– END OF YEAR	<u>6 481 179</u>	<u>5 591 882</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Management Personnel

The following description of the Pension Plan of Management Personnel (PPMP) is given for information purposes only. For more complete information concerning this plan, please consult the Act respecting the Pension Plan of Management Personnel (R.S.Q., 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 to ununionizable public and parapublic sector employees appointed or hired before January 1, 2001 who contributed to the Government and Public Employees Retirement Plan (RREGOP) at December 31, 2000.

The pensions and benefits described below may differ for certain classes of employees determined by the Government, including senior officials.

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$172 million and the remainder is assumed by the Government.

For senior officials, benefits are funded by participants and self-employed employers according to the contribution rates set by law and by the Government, which assumes the balance of obligations related to benefits.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to the administration of the PPMP are assumed by the plan and are divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60, if they have 35 years' pensionable service, or if they are 55 and their age and years of service total 88.

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

The pension is obtained by multiplying the average pensionable salary for the three best-paid years by 2% per year of service. It can be added to pension credits granted following the redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluation of certain years of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a contributor or a pensioner aged 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)**d) Death benefits (cont'd)**

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is or are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the PPMP before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the PPMP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

f) Indexation of benefits

Pension benefits under the PPMP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplementary Pension Plan for Senior Officials

In keeping with section 208 of the Act respecting the Pension Plan of Management Personnel, the Government established the Supplementary Pension Plan for Senior Officials by Order-in-Council 461-92. This is a defined-benefit plan offered certain senior officials eligible for benefits under the Act respecting the Pension Plan of Management Personnel. This plan makes provision for additional benefits at the base amount determined in keeping with the act. The benefits paid out under this plan are funded by the Government.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

This valuation is based on assumptions established by CARRA actuaries and deemed appropriate by the consulting actuary appointed by the retirement committee under the Act respecting the Pension Plan of Management Personnel. Moreover, the parties have agreed to use the overall attained-age actuarial cost method, free of assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 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 according to the actuarial valuation carried out according to data as at December 31, 2002 and reflects amendments to the PPMP since the publication of the valuation in October 2004. This rate corresponds to 6.33% of the eligible 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 2005, this rate was 7.78% for management personnel from the CSSP and 8.08% for management personnel from the TPP.

The Act respecting the Pension Plan of Management Personnel does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those used for participants and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

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

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the Caisse de dépôt et placement du Québec is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act.

The amounts needed to pay the additional benefits resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund. Since the \$172 million maximum assumed by the employees was reached, the Government paid the sums needed to cover the value of the benefits acquired during the fiscal year into this fund.

Under the Act respecting the Government and Public Employees Retirement Plan, the benefits for pension credits acquired by buy-out or transfer from supplemental pension plans are taken from the respective RREGOP funds.

The amounts required to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

Amounts deposited in the Consolidated Revenue Fund

Under Order-in-Council 987-99, employee contributions from senior officials and those of their employees are deposited into the Consolidated Revenue Fund. The amounts needed for the payment of benefits are also taken from the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005			2004
	Employee contributions fund	Employer contributions fund	Total	Total
Participation deposits in individual funds – at fair value (cost 2005: 6 721 274; 2004: 5 834 959) *	6 370 966		6 370 966	5 496 796
Demand deposits in the General Fund (advances)	(6 452)	43	(6 409)	34
Revenues receivable from individual funds	50 321		50 321	32 634
	<u>6 414 835</u>	<u>43</u>	<u>6 414 878</u>	<u>5 529 464</u>
* Cost of units			5 381 293	4 923 077
Cumulated gains realized, but not yet distributed by individual portfolios			<u>1 339 981</u>	<u>911 882</u>
			<u>6 721 274</u>	<u>5 834 959</u>

5. FINANCIAL INSTRUMENTS

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

6. NET ASSETS AVAILABLE FOR BENEFITS

	2005			2004
	Employee contributions	Employer contributions	Total	Total
Regular service	6 181 040	300 067	6 481 107	5 592 321
Transferred service		72	72	(439)
	<u>6 181 040</u>	<u>300 139</u>	<u>6 481 179</u>	<u>5 591 882</u>

The net assets available for the service of benefits resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in the RREGOP financial statements, were, respectively, \$252 500 000 and \$445 099 000 as at December 31, 2005 (\$228 864 000 and \$410 785 000 as at December 31, 2004).

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. Under the Act respecting the Pension Plan of Management Personnel, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service and benefits payable to senior officials. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)**Liability recorded in the Government's financial statements (cont'd)**

The pension costs for the PPMP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2005	2004
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	4 112 179	3 728 785
Increase		
Contributions encashed	14 467	18 981
Pension costs		
Current service	196 412	195 290
Past service	21 046	21 046
Interest	297 935	274 439
Inter-plan transfers for past service	122 383	85 740
	652 243	595 496
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	207 441	212 102
Net increase	444 802	383 394
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	4 556 981	4 112 179
Estimated liability recorded as at December 31	4 838 932	4 405 986
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	1 101 900	1 102 233
Estimated liability recorded as at December 31	1 103 485	1 099 893

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 (\$54 619 billion as at March 31, 2005). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$1 469 billion of which are slated for the PPMP.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

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

In keeping with the Act respecting the Pension Plan of Management Personnel, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and employment conditions into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPMP. The fair value of this fund is estimated at \$6 275 billion as at December 31, 2005.

However, in its consolidated financial statements for the year ended as at March 31, 2005, the Government does not recognize having commitments to the PPMP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPMP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information concerning the various actuarial valuations.

Government management employee associations presented a petition to the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPMP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPMP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since the evidence shows that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date. In August 2004, the petitioners appealed this ruling.

For the fiscal year, the Government contribution for regular service corresponds to 4.47% of pensionable earnings. The contribution is set according to the actuarial valuation carried out using data as at December 31, 2002 and reflects the changes made to the PPMP since the valuation was published.

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

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

	2005	2004
Opening balance	5 536 485	4 982 802
Increase		
Gouvernement du Québec contributions	69 736	29 364
Interest	793 727	445 942
Unrealized (losses) gains	(14 756)	137 067
Inter-plan transfers for past service	116 102	102 271
	6 501 294	5 697 446
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	226 368	160 961
Closing balance	6 274 926	5 536 485

The equivalent cost value was \$6 687 090 000 at December 2005 (\$5 933 893 000 at December 31, 2004).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLANS OF MANAGEMENT PERSONNEL
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPMP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation carried out using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$8 636 846 000 at December 31, 2002 for regular service and additional benefits, and at \$1 290 550 000 at December 31, 2003 for years of service transferred from the TPP, CSSP and at \$459 613 000 at December 31, 2000 for senior officials. They estimated the actuarial value of all of these benefits at \$12 709 150 000 at December 31, 2005.

	2005		2004
	Employee contributions	Employer contributions	Total
Management Personnel			
Regular service	5 416 314	5 322 823	10 739 137
Transferred service		1 294 972	1 223 118
	<u>5 416 314</u>	<u>6 617 795</u>	<u>12 034 109</u>
Senior officials		675 041	675 041
	<u>5 416 314</u>	<u>7 292 836</u>	<u>12 709 150</u>
			<u>11 790 181</u>

The obligations related to benefits for regular service include \$227 787 000 \$ (\$223 903 000 at December 31, 2004) for additional benefits.

Change in accrued pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	<u>11 790 181</u>	<u>10 069 571</u>
Increase		
Actuarial loss	39 142	580 096
Change in actuarial assumptions	47 091	465 976
Corrections to participant data		7 434
Interest	774 466	730 051
Benefits accrued	352 525	355 451
Inter-plan transfers	<u>195 462</u>	<u>197</u>
	<u>1 408 686</u>	<u>2 139 205</u>
Decrease		
Corrections to participant data	14 002	
Benefits paid	<u>475 715</u>	<u>418 595</u>
	<u>489 717</u>	<u>418 595</u>
Net increase for the year	<u>918 969</u>	<u>1 720 610</u>
Actuarial present value of accrued pension benefits - end of year	<u>12 709 150</u>	<u>11 790 181</u>

Benefits obligations resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in RREGOP financial statements, are, respectively, \$439 955 000 and \$304 920 000 at December 31, 2005 (\$382 322 000 and \$305 009 000 at December 31, 2004).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

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

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

	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 and the long-term rates represent the rates used as of 2014.

Employee obligations for capitalization purposes

Employee contributions paid into the pension fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to the accounting principles that are generally accepted in Canada for presenting the actuarial obligation in the financial statements.

In fact, the method used by parties to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service was \$4 120 525 000 as at December 31, 2002 and \$6 181 040 000 as at December 31, 2005, which corresponds to the market value of the employee fund as at each of these dates.

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

	2005		2004
	Employee contributions fund	Employer contributions fund	Total
Net investment income from individual funds	245 017		245 017
Interest on demand deposits in the General Fund	1	226	227
	<u>245 018</u>	<u>226</u>	<u>245 244</u>
Change in fair value			
Gains from the sale of investments	129 037		129 037
Gains realized in the individual portfolios	428 099		428 099
Unrealized (losses) gains	(12 145)		(12 145)
	<u>544 991</u>		<u>544 991</u>
			<u>373 277</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

10. BENEFITS TO CONTRIBUTORS

For fiscal 2005, \$1 620 814 (2004: \$1 198 594) was paid under the Senior Officials' Supplemental Pension Plan and is included in the item Gouvernement du Québec pension and change in net assets available for benefit service.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Management Personnel regarding regular service and additional benefits resulting from the revaluation of years of service acquired at December 31, 2002. This estimate was carried out according to contributors' profiles as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$8 636 846 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR
MANAGEMENT PERSONNEL AT DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE
VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of actuarial Services, Development
and Strategic Planning

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, January 24, 2005

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Management Personnel regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan according to contributors' profiles as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$1 290 550 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN OF MANAGEMENT PERSONNEL AT DECEMBER 31, 2003, CARRIED OUT FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

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

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel regarding specific provisions offered senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$439 057 000. For the actuarial valuation, the Pension Plan for Senior Official designates these specific provisions.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FIICA, FSA
Actuary

Québec, March 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel for supplemental pension plans for senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$20 556 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, March 7, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

AUDITOR'S REPORT

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005, 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 24, 2006

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, 2005
(in thousands of dollars)

	2005		2004	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Teachers Pension Plan	7 375		14 313	
Pension Plan of Certain Teachers	<u>712</u>	8 087	<u>4 197</u>	18 510
Contributions of independent employers				
Teachers Pension Plan		133		53
Interest revenue				
Teachers Pension Plan		<u>24</u>		<u>6</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>8 244</u>		<u>18 569</u>
BENEFITS				
Benefits paid				
Pensions				
Teachers Pension Plans (Note 5)	1 208 222		1 172 206	
Pension Plan of Certain Teachers	<u>153 019</u>	1 361 241	<u>150 904</u>	1 323 110
Contribution refunds				
Teachers Pension Plans	1 159		1 070	
Pension Plan of Certain Teachers	<u>4</u>	1 163	<u>6</u>	1 076
Transfers, including interest				
Teachers Pension Plans	4 632		4 334	
Pension Plan of Certain Teachers	<u>230</u>	4 862	<u>426</u>	4 760
Administrative expenses				
Teachers Pension Plans	2 582		3 694	
Pension Plan of Certain Teachers	<u>346</u>	<u>2 928</u>	<u>316</u>	<u>4 010</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		1 370 194		1 332 956

PENSION OBLIGATIONS (Note 6)

LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 7)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Teachers Pension Plans Pension Plan of Certain Teachers

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the following:

- the Act respecting the Teachers Pension Plan (R.S.Q., c. R-11);
- the Act respecting the Pension Plan of Certain Teachers (R.S.Q., c. R-9.1);
- the Act respecting pension coverage for certain teachers (R.S.Q., c. P-32.1).

a) General information

These pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to:

- teachers appointed or hired by a recognized educational institution prior to July 1, 1973;
- certain categories of teachers who used to belong to a religious community.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 65 for men, or age 60 for women. They are also entitled to such benefits if they are 62 years of age and have 10 years' pensionable service, if they have 33 years' pensionable service under the Teachers Pension Plan (TPP) or 35 years' pensionable service under the Pension Plan of Certain Teachers (PPCT), or if they are 55 years of age and have 32 years' pensionable service.

Contributors are entitled to an actuarially reduced pension if they have 22 years' pensionable service and are 55 years of age for men, or 50 years of age for women. Women are also entitled to such a pension if they have 10 years' pensionable service and are 58.

The pension is calculated by multiplying the average pensionable salary for the five best-paid years by 2% per year of service. For the PPCT, an additional pension equal to the average pensionable earnings multiplied by 1.6% per year of service performed before paying into a pension plan is added to the retirement pension. The pension, including the additional pension, is reduced at age 65 to reflect coordination with the Québec Pension Plan.

d) Disability pension

The TPP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service.

e) Death benefits

If a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. In the case where there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005
(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 or she would have been entitled to receive or that the person received. In the absence of a spouse, the heirs are entitled to receive the difference with interest between the contributions and pensions paid.

In the case of the TPP, if a contributor dies before being eligible to receive an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

In the case of the PPCT, if a contributor dies before being eligible to receive an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

f) Severance benefits

According to the terms and conditions of the TPP, persons who cease to contribute to the plan before being eligible to receive an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension or may request that the total contributions paid into the plan or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

According to the terms and conditions of the PPCT, persons who cease to contribute to the plan before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service. If they have 10 or more years' pensionable service and are older than 45, they are entitled to a deferred indexed pension. In all other cases, contributors are entitled to choose between the refund of contributions, plus interest, or a deferred indexed pension.

Contributors are eligible for a deferred indexed pension at age 60 or 65, depending on the terms and conditions of each plan.

g) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982 and to service entitling the individual to a pension in addition to the PPCT.

Supplemental Pension Plan for Teachers

The Supplemental Pension Plan for Teachers (C.T. 195706 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the TPP.

It makes provision for paying a disability pension under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the TPP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 FINANCIAL STATEMENTS (cont'd)
 December 31, 2005
 (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 portion of the salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 8.08% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

For the PPCT, the employee contribution is 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.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act respecting the Teachers Pension Plan and the Act respecting the Pension Plan of Certain Teachers do not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. AMOUNTS RECEIVABLE / TRANSFERS - PENSION PLAN OF CERTAIN TEACHERS

Sections 53 and 54 of the Act respecting the Pension Plan of Certain Teachers, in force since June 1986, stipulate that all amounts paid into the Caisse de dépôt et placement du Québec under the Act respecting the Government and Public Employees Retirement Plan for individuals covered by this Act must be transferred to the Consolidated Revenue Fund. However, any benefits paid or payable are deducted from these amounts.

As at December 31, 2005, an amount of \$704 000 (\$4 142 000 as at December 31, 2004) 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 2005, \$3 192 662 \$ (2004: \$3 202 262) was paid under the Supplemental Pension Plan for Teachers and is included in the item Pensions.

6. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations of the Government and Public Employees Retirement Plan (RREGOP) on the basis of data at December 31, 2002 and presented to the pension committee on October 15, 2004. Changes were made to certain assumption to reflect participants' profiles and specific plan provisions. Short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits of the TPP at \$14 318 272 000 as at December 31, 2002 and those of the PPCT at \$1 707 115 000 as at December 31, 2003, and estimated these amounts at \$13 698 829 000 and \$1 623 724 000 as at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2005	2004
Teachers Pension Plan		
Actuarial present value of accrued pension benefits – beginning of year	14 017 547	13 656 496
Increase		
Actuarial loss		182 981
Change in actuarial assumptions		427 432
Interest	872 428	890 213
Benefits accrued	22 867	44 356
	895 295	1 544 982
Decrease		
Corrections to participant data		4 703
Benefits paid	1 214 013	1 177 610
Inter-plan transfers for past service		1 618
	1 214 013	1 183 931
Net increase (decrease) for the year	(318 718)	361 051
Actuarial present value of accrued pension benefits – end of year	13 698 829	14 017 547
Pension Plan of Certain Teachers		
Actuarial present value of accrued pension benefits – beginning of year	1 592 135	1 624 780
Increase		
Actuarial loss	37 953	
Change in actuarial assumptions	37 936	
Interest	106 696	108 563
Benefits accrued	2 151	3 583
Inter-plan transfers for pas service	106	6 545
	184 842	118 691
Decrease		
Benefits paid	153 253	151 336
Net increase (decrease) for the year	31 589	(32 645)
Actuarial present value of accrued pension benefits – end of year	1 623 724	1 592 135
	15 322 553	15 609 682

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005
(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

For the PPCT, the medium-term rates are the medium-term rates for 2004 to 2013 and, for the TPP, the medium-term rates for 2003 to 2013. The long-term rates are those 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 generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plan correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based of services and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2005	2004
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	14 148 248	14 302 204
Increase		
Contributions recovered	17 172	22 101
Pension costs		
Current service	31 872	42 257
Past service	60 628	60 628
Interest	986 953	1 003 112
Inter-plan transfers for past service	2 682	2 963
	1 099 307	1 131 061
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	1 345 454	1 285 017
Net increase for the year	246 147	153 956
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	13 902 101	14 148 248
Estimated liability recorded as at December 31	13 686 905	13 964 445

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005
(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)**

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 (\$54 619 billion as at March 31, 2005). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 469 billion for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Teachers Pension Plans according to the contributors' profile as at December 31, 2002, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$14 318 272 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE TEACHERS PENSION PLANS AS AT DECEMBER 31, 2002, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

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**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Certain Teachers according to the contributors' profile as at December 31, 2003, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$1 707 115 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE PENSION PLAN OF CERTAIN TEACHERS AS AT DECEMBER 31, 2003, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 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, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of these plans for the year ended December 31, 2005 in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance,
Auditor General of Québec

Québec, March 23, 2006

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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	4 789	5 876
Contributions of autonomous employers	<u>1 087</u>	<u>1 485</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>5 876</u>	<u>7 361</u>
BENEFITS		
Benefits paid		
Pensions (Note 4)	457 709	449 131
Contribution refunds	314	311
Transfers, including interest	1 210	2 055
Administrative expenses	<u>1 039</u>	<u>1 306</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>460 272</u>	<u>452 803</u>

PENSION OBLIGATIONS (Note 5)

LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Civil Service Superannuation Plan

The following description of the Civil Service Superannuation Plan (CSSP) is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting the Civil Service Superannuation Plan (R.S.Q., c. R-12).

a) General information

The CSSP is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to civil service employees appointed or hired prior to July 1, 1973.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction:

- at age 65;
- at age 62 for men, or age 60 for women, if they have 10 years' pensionable service;
- if they have 35 years' pensionable service;
- at age 55 if they have 32 years' pensionable service; or
- at age 60 if their age and years of pensionable service total 90.

They are entitled to an actuarially reduced pension at age 55 for men, or 50 for women, if they have accumulated 22 years' pensionable service, at age 60, or under age 60 if their age and years of pensionable service total 90.

The pension is calculated by multiplying the average pensionable salary of the five best-paid years by 2% per year of service. The pension is reduced beginning at age 65 in order to coordinate with the Québec Pension Plan.

d) Disability pension

The CSSP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service accumulated toward the plan.

e) Death benefits

If a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. In the case where there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

f) Severance benefits

Persons who cease to contribute to the CSSP before being eligible for an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension at age 65 for men, or 60 for women, or may request that the total contributions paid into the CSSP or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

g) Indexation of benefits

Pension benefits under the CSSP are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplemental Pension Plan for Civil Servants

The Supplemental Pension Plan for Civil Servants (C.T. 195705 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the CSSP.

It makes provision for paying a disability pension, under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the CSSP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of contributions and benefits over the period covered by the financial statements. The 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 salary that exceeds the personal exemption under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 7.25% of the remaining pensionable earnings. Under section 177 of the Act respecting the Government and Public Employees Retirement Plan, these rates are no longer reviewed.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the CSSP. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. BENEFITS TO CONTRIBUTORS

For fiscal 2005, \$185 027 (\$137 681 in 2004) was paid under the Supplemental Pension Plan for Civil Servants and is included in the item Pension.

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) carried out using data as at December 31, 2002 and tabled with the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$5 450 635 000 as at December 31, 2002 and estimated it at \$5 209 506 000 as at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	5 320 855	5 276 654
Increase		
Actuarial loss		13 583
Change in actuarial assumptions		135 344
Interest	331 464	337 911
Benefits accrued	16 420	20 118
	347 884	506 956
Decrease		
Corrections to participant data		11 258
Benefits paid	459 233	451 497
	459 233	462 755
Net increase (decrease) for the year	(111 349)	44 201
Actuarial present value of accrued pension benefits – end of year	5 209 506	5 320 855

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

The medium-term rates represent the average rates for the period 2003 to 2013, while the long-term rates represent the rates used as of 2014. The assumption related to yield is determined by presuming that, if the CSSP were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the RREGOP.

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the CSSP in the Consolidated Revenue Fund.

The pension costs for the CSSP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**Change in the liability recorded in the Government's financial statements**

	<u>2005</u>	<u>2004</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>4 951 599</u>	<u>5 016 901</u>
Increase		
Contributions recovered	4 820	5 453
Pension costs		
Current service	11 909	13 465
Past service	15 450	15 450
Interest	<u>341 228</u>	<u>346 669</u>
	373 407	381 037
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>454 820</u>	<u>446 339</u>
Net decrease for the year	<u>81 413</u>	<u>65 302</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u><u>4 870 186</u></u>	<u><u>4 951 599</u></u>
Estimated liability recorded as at December 31	<u><u>4 800 755</u></u>	<u><u>4 891 406</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 (\$54 619 billion as at March 31, 2005). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the RREGOP and \$1 469 billion for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Civil Service Superannuation Plan according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$5 450 635 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE CIVIL SERVICE SUPERANNUATION PLAN AS AT DECEMBER 31, 2002 CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF THE OBLIGATIONS RESULTING FROM THE PLAN RECORDED IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

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, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of the plans for the year ended December 31, 2005 in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 22, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. R-10)

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2005

(in thousands of dollars)

	2005		2004	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Pension plans offered to judges of the Québec Court and certain municipal courts		2 023		1 890
Municipalities' contributions, including contributions for previous service				
Pension plans offered to judges of the Québec Court and certain municipal courts	103		107	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	138	241	143	250
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>2 264</u>		<u>2 140</u>
BENEFITS				
Benefits paid				
Pensions				
Pension plans offered to judges of the Québec Court and certain municipal courts	15 554		15 521	
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	3 443		3 047	
Pension Plan of the Public Protector and his/her assistant	247	19 244	250	18 818
Administrative expenses				
Pension plans offered to judges of the Québec Court and certain municipal courts		30		34
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		<u>19 274</u>		<u>18 852</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 5)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(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 as a matter of information. To obtain more complete information concerning these plans, please consult Parts V.1 to V.3 of the Courts of Justice Act (R.S.Q., c. T-16) for the pension plans and Orders-in-Council 326-93 and 695-2001 for the supplemental pension plans.

a) General information

These pension plans and supplemental pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to judges of the Court of Québec, including those of the Québec City and Laval municipal courts.

In keeping with section 25 of Act to amend the Securities Act (Q.S. 1971, c. 77), the Pension plan of certain judges appointed before May 30, 1978 also applies to commissioners of the Commission des valeurs mobilières du Québec who were in office in July 7, 1971.

b) Funding

Pension plan of the judges of the Court of Québec and certain municipal courts (PPJCQM) benefits are funded by participants and municipalities according to the contribution rate set by law. The Government assumes the balance of benefit obligations.

For the other plans, benefits are entirely funded by the Government.

c) Retirement benefits

PPJCQM contributors acquire the right to a retirement pension without an actuarial reduction at age 65 or when the sum of their age and years of service total 80 and they acquire the right to a reduced pension when they have accumulated 21.7 years of service. According to the provisions of the PPCJQM, the retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 1.5% per year of service. Contributors acquire the right to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 3% per year of service over the retirement pension calculated under the basic plan. The sum of PPJCQM benefits and supplemental pension plan benefits cannot exceed 65% of average pensionable earnings or be lower than 55% thereof if their age and years of service total 80.

Contributors to the Pension plan of certain judges appointed before January 1, 2001 acquired the right to a retirement pension without the actuarial reduction at age 65 or a reduced pension when they have 25 years of service. The retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 2.8% per year of service for years of service prior to December 31, 1991 and by 1.5% per year of service thereafter. Contributors acquire the right to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 2.8% per year of service over the retirement pension calculated under the basic plan.

According to the provisions of the Pension plan of certain judges of the Court of Québec appointed before May 30, 1978, the pension constitutes a set amount.

d) Disability benefits

These pension plans can provide for payment of a disability benefit to an employee who has been totally and permanently disabled. This benefit is calculated according to the same terms and conditions as a regular pension.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act (cont'd)

e) Death benefits

If a contributor or a pensioner under the PPJCQM or the PPCBJB died, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% or 66 2/3% if the contributor had chosen a reduced pension. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If a contributor dies before being eligible to receive a pension, contributions, plus interest, are refunded to the surviving spouse or, failing that, to the heirs.

If a contributor dies while receiving a Pension plan of the judges of the Court of Québec and certain municipal courts pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension that the person received

The same conditions apply to supplemental benefits.

f) Severance benefits

Persons who cease to contribute to the PPJCQM or the PPCBJB before being eligible for an immediate pension are entitled to a deferred indexed pension at age 65 if they have more than two years' pensionable service; otherwise, they are entitled to the refund of contributions, plus interest. The same conditions apply to supplemental benefits.

g) Indexation of benefits

Pension benefits under the PPJCQM and PPCBJB and supplemental benefits are fully indexed to the cost of living increase for the portion of the pension which corresponds to vested service prior to July 1, 1990, and are partially indexed for the portion of the pension which corresponds to vested service after June 30, 1990. Pension benefits under the PPCJBM are fully indexed if contributors opt for such indexation by investing the required amounts.

Pension plan of the Public Protector and his/her assistant

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the Public Protector Act (R.S.Q., c. P-32) regarding the pension plan of the Public Protector and his/her assistant;

a) General information

This pension plan is administered by CARRA. It is a defined-benefit pension plan

b) Funding

Pension benefits under this plan are funded entirely by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of contributions and benefits over the period covered by the financial statements. The 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 since January 1, 1990. The municipalities make contributions corresponding to 27.98% of the payroll of the judges in question (11.91% for the basic plan and 16.07% for supplementary benefits).

The Pension plan of the Public Protectors and his/her assistant is non-contributory.

Employee and municipal contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan carried out using data as at December 31, 1999 and tabled with the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$263 287 000 as at December 31, 2000 for the pension plans of the judges of the Québec Court and certain municipal courts and at \$3 189 000 as at December 31, 2005 for the Pension Plan of the Public Protector and his/her Assistant. For all of these plans, the actuarial value of accrued benefits is estimated at \$333 415 000 as at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)
Change in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	318 103	304 437
Increase		
Actuarial loss	14	44
Change to actuarial assumptions	6	212
Interest	22 768	21 043
Benefits accrued	11 768	11 185
	34 556	32 484
Decrease		
Benefits paid	19 244	18 818
Net increase for the year	15 312	13 666
Actuarial present value of accrued pension benefits – end of year	333 415	318 103

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	1.20

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plans correspond to the sum of the cost of accrued benefits, changes to the plans during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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>2005</u>	<u>2004</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>303 748</u>	<u>290 395</u>
Increase		
Contributions recovered	2 361	2 505
Pension costs		
Current service	9 332	9 672
Past service	(325)	(325)
Interest	<u>20 171</u>	<u>19 343</u>
	31 539	31 195
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>18 717</u>	<u>17 842</u>
Net increase	<u>12 822</u>	<u>13 353</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>316 570</u>	<u>303 748</u>
Estimated liability recorded as at December 31	<u><u>326 553</u></u>	<u><u>313 392</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, 2005: \$54 619 billion). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 469 billion for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension plans of the judges of the Québec Court and certain municipal courts established under the Courts of Justice Act (R.S.Q., c. T-16) according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$197 130 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, December 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Supplemental pension plans for the judges of the Québec Court and certain municipal courts established under section 122 of the Courts of Justice Act according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$66 157 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, December 20, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Public Protector and his/her assistant according to contributors' profiles as at December 31, 2005 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$3 189 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT AS AT DECEMBER 31, 2005, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 28, 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 ASSISTANT
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans mentioned in Note 1 for the year ended December 31, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005, 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.

Compliance with legislative and regulatory provisions

The Commission administrative des régimes de retraite et d'assurances did not obey the legislative and regulatory provisions stipulating that at least every three years it must perform an actuarial assessment of pension plans of the judges of the Court of Québec and certain municipal courts and supplemental pension plans of judges established under section 122 of the Courts of Justice Act. When the financial statements were prepared, no actuarial assessment had been published since December 2002.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 24, 2006

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, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	21 717	21 663
Contributions of independent employers	60	166
Reimbursement of employer contribution overpayments	(214)	
Transfers, including interest (Note 4)	21 545	33 175
Interest income	<u>53</u>	<u>64</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>43 161</u>	<u>55 068</u>
BENEFITS		
Benefits paid		
Pensions	151 208	141 391
Special pension	25	25
Contribution refunds	421	480
Transfers, including interest	2 928	2 841
Administrative expenses	<u>361</u>	<u>403</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>154 943</u>	<u>145 140</u>

PENSION OBLIGATIONS (Note 5)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE SPMSQ AND THE SPECIAL PENSION

Superannuation plan for the members of the Sûreté du Québec (SPMSQ)

The description of the SPMSQ is given as a matter of information. To obtain more complete information concerning this plan, please consult the 1992 agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec as well as the letter of agreement endorsed by the parties in 2001 for the period January 1, 1992 to June 30, 2002.

a) General information

The SPMSQ is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to eligible members of the Sûreté du Québec.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by the agreement, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction if they have 25 years' pensionable service or if their age and years of pensionable service total 75.

They are entitled to an actuarially reduced pension if they have 20 years' pensionable service.

Contributors must retire at age 65 or if they have 35 years' pensionable service.

The pension is equal to the sum of the following:

- for past service credited prior to January 1, 1992, the amount obtained by multiplying the average pensionable salary for the 48 best-paid months by 2.3% per year of service for the first 30 years of service and by 0.5% per year for the thirty-first and thirty-second years; and
- for service credited after December 31, 1991, the amount obtained by multiplying the average pensionable salary for the 36 best-paid months by 2% per year of service, to which is added, until age 65, an additional amount equal to 0.3% per year of service.

The pension for past service cumulated prior to January 1, 1992, is reduced beginning at age 65 to coordinate it with that of the Québec Pension Plan.

d) Death benefits

If a person dies while not on duty and contributed to the SPMSQ for at least 10 years, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, excluding the additional amount. If the person did not have 10 years of service, the contributions are reimbursed with interest to the surviving spouse or, if there is no spouse, to the heirs.

Each dependent child is eligible to receive a pension equal to 10% of this pension, if a pension is paid to the spouse, without the total pension awarded to all dependent children exceeding 40% of the pension the deceased was receiving or would have received. If no pension is paid to the spouse, the dependent children share, in equal parts, a pension equal to that which the surviving spouse would have received, plus 10% per child, beginning with the second child, without the total pension awarded to all the children exceeding 80% of the pension the deceased was receiving or would have received.

If a person dies while in office, benefits are payable when payment of the special pension stops.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION**

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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)****e) Severance benefits**

Persons who cease to contribute to the SPMSQ before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' service.

In all other cases, contributors may choose between the partial or complete refund of contributions, plus interest, and a deferred indexed pension, depending on their age and years of service when they cease to contribute to the SPMSQ.

The deferred pension plan is payable without an actuarial reduction as soon as the person is 60 or over or with an actuarial reduction the date the person attains 32 years of service, whichever comes first.

f) Indexation of benefits

Pensioners who became members of the Sûreté du Québec prior to April 1, 1987, receive pensions which are fully indexed to the cost of living increase for pensionable service credited prior to January 1, 1992, and up to 20 years' pensionable service after that date. In all other cases, pensions are partially indexed to the cost of living increase.

Special pension

In keeping with an agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec, benefits payable on death of a member of the Sûreté du Québec on duty before he/she is eligible for a retirement pension under the SPMSQ, or before he/she is 60, correspond to 80% of the wage he/she would have received up to the first of these dates. These benefits are payable to the member's spouse or, if there is no spouse, to his/her dependent children.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of contributions and benefits over the period covered by the financial statements. The 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.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the SPMSQ. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. TRANSFER OF MUNICIPAL POLICE OFFICERS

Following the reform of the Act concerning the organization of police services (S.Q., 2001, c. 19), the Government and the Association des policiers provinciaux du Québec signed an agreement on the pension benefits of police officers that were integrated into the Sûreté du Québec. Several municipalities chose to abolish their police corps to use Sûreté du Québec services. Many municipal police officers integrated into the Sûreté du Québec opted to have their past years of service recognized under the terms of the agreement. As at December 31, 2005, \$932 000 (\$2 964 000 as at December 31, 2004) is receivable with regard to a transfer of sums related to the recognition of these years of service. In keeping with the capitalization policy, this amount will be paid into the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan (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 \$3 144 912 000 as at December 31, 2005.

Change in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	2 980 294	2 833 254
Increase		
Change in actuarial assumption	57 167	
Interest	208 732	196 593
Benefits accrued	63 158	95 159
	329 057	291 752
Decrease		
Actuarial gain	5 497	
Corrections to participant data	4 385	
Benefits paid	154 557	144 712
	164 439	144 712
Net increase for the year	164 618	147 040
Actuarial present value of accrued pension benefits – end of year	3 144 912	2 980 294

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

The medium-term rates represent the average rates for the period 2004 to 2013, while the long-term rates represent the rates used as of 2014. The assumption related to yield is determined by presuming that, if the SPMSQ were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the SPMSQ in the Consolidated Revenue Fund.

The pension costs for the SPMSQ correspond to the sum of the cost of accrued benefits, changes to this plan during the year and amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	<u>2005</u>	<u>2004</u>
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>2 757 436</u>	<u>2 581 343</u>
Increase		
Contributions recovered, including transfers	50 375	93 570
Pension costs		
Current service	40 605	42 120
Past service	1 623	1 623
Interest	<u>188 922</u>	<u>178 620</u>
	281 525	315 933
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>148 411</u>	<u>139 840</u>
Net increase for the year	<u>133 114</u>	<u>176 093</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>2 890 550</u>	<u>2 757 436</u>
Estimated liability recorded as at December 31	<u>2985 253</u>	<u>2 854 675</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, 2005: \$54 619 billion). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 469 billion for the Pension Plan of Management Personnel.

7. CONTINGENCIES

A contributor filed a grievance in respect of the average pensionable salary used by CARRA to calculate the amount of pension benefits. CARRA is unable to determine the chances of the contributor's winning the case and, if so, the attendant financial impacts.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Superannuation Plan for the Members of the Sûreté du Québec according to the contributors' profile as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$2 927 437 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AT DECEMBER 31, 2003, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

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 special pension for the year ended December 31, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan as for the year ended December 31, 2005, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 21, 2006

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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	3 920	3 755
Transfers, including interest	<u>67</u>	<u>4 388</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>3 987</u>	<u>8 143</u>
BENEFITS		
Benefits paid		
Pensions	28 747	27 924
Contribution refunds and transfers, including interest	1 208	713
Administrative expenses	<u>419</u>	<u>881</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND AND ADMINISTRATIVE EXPENSES	<u>30 374</u>	<u>29 518</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (Note 4)
PENSION OBLIGATIONS (Note 5)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PPPOCS

The description of the Pension Plan for Peace Officers in Correctional Services (PPPOCS) is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting the Pension Plan for Peace Officers in Correctional Services (R.S.Q., c. R-9.2).

a) General information

The PPPOCS is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to members of the Syndicat des agents de la paix en services correctionnels du Québec, to intermediate officers represented by the Fraternité des cadres intermédiaires des agents de la paix de la fonction publique or the Association des administrateurs des établissements de détention du Québec and to certain categories of employees at the Institut Pinel.

b) Funding

Benefits are funded in the following proportions: contributors - 54% and Government - 46%, with the exception of supplemental benefits resulting from the revaluation of certain years of service that are funded entirely by contributors.

The PPPOCS's administrative expenses are assumed by the Government.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60 if they have 32 years' pensionable service, or at age 50 if they have 30 years' pensionable service.

They are entitled to an actuarially reduced pension if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable salary for the five best-paid years by 2% per year of service credited after December 31, 1991, plus, until age 65, an amount equal to 0.1875% of the average salary per year of service. For the years of service accumulated prior to December 31, 1991, the annual acquisition rate is 2.1875%. The pension is reduced beginning at the age of 65 in order to coordinate it with that of the Québec Pension Plan. For those having contributed to the PPPOCS at some point between 1988 and 1991, supplemental benefits payable until age 65 can be added to the pension. For those having contributed to the Plan at some point between 1995 and 2000, additional benefits payable until age 65 can be added to the pension.

d) Death benefits

If a person dies while contributing to the PPPOCS and was eligible for an immediate pension plan or was receiving a retirement pension, the spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% if the deceased had chosen to receive a pension reduced by 2%. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse and no pension is paid to the children, the contributions are reimbursed with interest to the heirs minus any benefit paid.

If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

e) Severance benefits

Persons who cease to contribute to the PPPOCS before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service; otherwise, they are entitled to a deferred indexed pension payable at the age of 65.

f) Indexation of benefits

Pension benefits under the PPPOCS are partially indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of contributions and benefits over the period covered by the financial statements. The 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, free of assets.

The employee contribution for the fiscal year is 1% calculated on the pensionable earnings exceeding the lesser of the following amounts: 25% of pensionable earnings or 25% of the maximum pensionable earnings under the Act respecting the Quebec Pension Plan (R.S.Q., c. R-9). This contribution rate was established based on the actuarial valuation conducted using data as at December 31, 1997 and agreements between the parties since its publication in April 2000.

Since January 1, 2000, an additional employee contribution of 3% is deducted to constitute a fund for financing supplemental benefits. The amounts paid generate annually compounded interest according to the rate of return of the employee contributions fund of the Government and Public Employees Retirement Plan (RREGOP) at the Caisse de dépôt et placement du Québec. This rate is determined according to the cost exposure.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the PPPOCS. However, the Government's commitments to financing the PPPOCS are presented in Note 4. They are calculated as the fund the parties would have created, had their contributions, established according to the above-mentioned actuarial valuation, been deposited in a pension fund.

The amounts required to pay all benefits are taken from the Consolidated Revenue Fund.

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this shared-cost plan and because the employee contributions are deposited in the Consolidated Revenue Fund, it records, as a liability in the financial statements, the following amounts:

- the value of the fund that the contributors would have set up had their contributions been deposited in a pension fund that generates the same rates of return as the Government and Public Employees Retirement Plan (RREGOP) entrusted to the Caisse de dépôt et placement du Québec and determine according to cost value, and
- an amount established based on the value of benefits for which it is responsible, i.e. 46% of total benefits, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

PPPOCS pension costs correspond to the amount of the cost of accrued benefits, changes made to the plan during the year and amortization of adjustments related to estimates resulting from actuarial gains or losses.

The pension cost is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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**

	2005	2004
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	628 054	605 187
Increase		
Contributions recovered	8 072	3 963
Pension costs		
Current service	8 924	8 885
Past service	481	481
Interest	47 872	37 051
Inter-plan transfers for past service	2 148	
	67 497	50 380
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	29 960	27 513
Net increase for the year	37 537	22 867
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	665 591	628 054
Estimated liability recorded as at December 31	706 631	650 733

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, 2005: \$54 619 billion). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 469 billion for the Pension Plan of Management Personnel.

Financing the PPOCS

In keeping with the Act respecting the Pension Plan for Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation every three years with respect to financing the PPPOCS. In this valuation, the actuaries take legislative provisions and collective agreements into account by using the valuation method the parties agree to and determine the employee and employer contribution rates. Consequently, from the beginning of the PPPOCS, CARRA has presented the Government's commitments to financing this plan as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee contribution funds of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec and determined in keeping with the cost exposure. However, the Act does not oblige the Government to contribute to the PPPOCS. The value of this fund was estimated at \$859 890 000 as at December 31, 2005.

However, in its consolidated financial statements for the year ended as at March 31, 2005, the Government does not recognize having commitments to the PPPOCS on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPPOCS, the Government's commitment the plan includes 46% of total benefits determined using

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (cont'd)

Financing the PPPOCS (cont'd)

accounting policies, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, the pre-recorded contribution representing the difference between the fund the parties would have created, paid they capitalized their share and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements since the fiscal year ended March 31, 1998. However, these notes contain information concerning the various actuarial valuations.

Government management employee associations presented a petition to the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPPOCS. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPOCS does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since the evidence shows that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date. In August 2004, the petitioners appealed this ruling.

Change in the fund the parties would have created

	2005			2004
	Employee portion	Government portion	Total	Total
Opening balance	426 412	352 841	779 253	732 715
Increase				
Employee contributions and other amounts cashed	3 253	2 326	5 579	1 182
Additional employee contributions	2 773		2 773	2 731
Gouvernement du Québec contributions				
Current service		1 141	1 141	1 775
Interest	55 739	45 982	101 721	58 014
Inter-plan transfers for past service				12 628
	488 177	402 290	890 467	809 045
Decrease				
Payment of benefits to contributors	16 456	13 255	29 711	28 911
Inter-plan transfers for past service	241	206	447	
Administrative expenses		419	419	881
Closing balance	471 480	388 410	859 890	779 253

The contributors' portion includes \$15 516 000 at December 31, 2005 (\$11 936 000 at December 31, 2004) for funding additional benefits.

5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPPOCS administrator.

The assumptions used by CARRA are those deemed the most probable by its actuaries in the context of the actuarial valuation of the RREGOP prepared on the basis of data as at December 31, 1999 and presented to the pension committee on November 7, 2001. Changes were made to certain assumptions to take participant profiles and specific PPPOCS provisions into account. The short-term economic assumptions take into account the data known the date the valuation is tabled.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

CARRA actuaries established the actuarial valuation of accrued benefits at \$465 454 000 as at December 31, 2001 and estimated it at \$588 940 000 as at December 31, 2005.

Change in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits - beginning of year	561 834	532 269
Increase		
Interest	40 288	36 860
Benefits accrued	17 230	17 248
Inter-plan transfers		4 094
	57 518	58 202
Decrease		
Benefits paid	29 537	28 637
Inter-plan transfers	875	
	30 412	28 637
Net increase for the year	27 106	29 565
Actuarial present value of accrued pension benefits - end of year	588 940	561 834

The changes made to the PPPOCS include an amount of \$12 014 000 as at December 2005 (\$12 067 000 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	4.00 %	2.90 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.60

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if the PPPOCS were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)**Obligations for capitalization purposes**

Employee contributions paid into the Consolidated Revenue Fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to generally accepted accounting principles in Canada for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the PPPOCS, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. In keeping with this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial was \$859 890 000 at December 31, 2005, which corresponds to the fund the parties would have created.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$465 454 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2001, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, February 18, 2004

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Pension Plan of Peace Officers in Correctional Services for the year ended December 31, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan for the year ended December 31, 2005, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 21, 2006

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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2003</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	<u>155 262</u>	<u>137 588</u>
Accounts receivables		
Employee contributions	70	74
Amounts receivable for past service	<u>138</u>	<u>167</u>
	<u>208</u>	<u>241</u>
	155 470	137 829
LIABILITIES		
Transfers and administrative expenses payable	<u>41</u>	<u>6</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 7)	<u><u>155 429</u></u>	<u><u>137 823</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPFEQ (Note 6)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
 THE GOUVERNEMENT DU QUÉBEC
 CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 for the year ended December 31, 2005
 (in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	900	939
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	5 649	4 833
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 8)	<u>13 648</u>	<u>9 686</u>
	20 197	15 458
Amounts received from the Gouvernement du Québec to pay administrative expenses	<u>29</u>	<u>18</u>
	<u>20 226</u>	<u>15 476</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	2 403	2 103
Contribution refunds and transfers, including interest	188	106
Administrative expenses	<u>29</u>	<u>18</u>
	<u>2 620</u>	<u>2 227</u>
NET INCREASE FOR THE YEAR	17 606	13 249
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>137 823</u>	<u>124 574</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u>155 429</u>	<u>137 823</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS
December 31, 2005
(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 as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 429-93 and 430-93 of the Gouvernement du Québec.

a) General information

The PPFEQ is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to federal employees transferred to the Gouvernement du Québec to administer programs related to immigration and the goods and services tax. The PPFEQ, which was sanctioned by the Gouvernement du Québec by virtue of Order-in-Council 430-93 of March 31, 1993, came into force on January 1, 1992.

b) Funding

Benefits are funded by the contributors according to the contribution rate established by Order-in-Council 430-93, by the sums transferred from the federal government and by the Government du Québec, which assumes the remaining obligations related to benefits.

Administrative expenses for the PPFEQ are assumed by the Government du Québec.

c) Retirement benefits

Contributors are entitled to benefits at age 60 if they have five or more years' pensionable service, or at age 55 if they have 30 or more years' pensionable service.

They are entitled to retirement with an actuarial reduction at age 50, if they have 25 years' service.

The pension is calculated according to the average pensionable salary for the six consecutive best-paid years, multiplied by 2% per year of service. The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

The PPFEQ provides for payment of a disability benefit to an employee who has been disabled. The benefit is calculated as a regular benefit according to the number of years of pensionable service accumulated to the plan.

e) Death benefits

Upon the death of a person who had at least five years of service, or who was collecting a pension, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received without counting the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If, at the time of death, the contributor had less than five years' service, the spouse, or heirs are entitled to reimbursement of the contributions plus interest.

f) Severance benefits

Persons who cease to contribute to the PPFEQ before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than five years' pensionable service. If they have more than five years' pensionable service under this plan, they are entitled to an indexed deferred pension payable at age 60.

g) Indexation of benefits

Pension benefits under the PPFEQ are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities and reporting contributions, revenues from the funds entrusted to the Caisse de dépôt et placement du Québec and benefits over the period covered by the financial statements. The 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

	2005	2004
Participation deposits in the individual fund – at fair value (cost 2005: \$169 508; 2004: \$151 321) *	154 074	136 659
Demand deposits in the General Fund (advances)	34	(7)
Revenue receivable from the individual fund	1 154	936
	<u>155 262</u>	<u>137 588</u>
* Cost of units	132 076	125 019
Cumulated gains realized, but not yet distributed by individual portfolios	37 432	26 302
	<u>169 508</u>	<u>151 321</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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 near future.

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 \$9 272 000 as at December 31, 2005 (2004: \$8 211 000).

7. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) conducted on the basis of data as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$62 836 427 at December 31, 2000 and \$90 476 000 at December 31, 2005.

Change in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	84 557	78 758
Increase		
Interest	6 123	5 523
Benefits accrued	2 387	2 485
	8 510	8 008
Decrease		
Benefits paid	2 591	2 209
Net increase for the year	5 919	5 799
Actuarial present value of accrued pension benefits – end of year	90 476	84 557

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.90

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

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

	2005	2004
Revenue from participation deposits in the individual fund	5 643	4 830
Interest on demand deposits in the General Fund	6	3
	<u>5 649</u>	<u>4 833</u>
Change in fair value		
Gains realized on the sale of investments	3 306	1 105
Gains realized by individual portfolios	11 113	4 889
Unrealized gains (losses)	<u>(771)</u>	<u>3 692</u>
	<u>13 648</u>	<u>9 686</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$62 836 427.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR
FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH THE GOUVERNEMENT DU QUÉBEC AT
DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, September 30, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
AUDITOR'S REPORT**

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005 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.

Compliance with legislative and regulatory provisions

The Commission administrative des régimes de retraite et d'assurances did not obey the legislative and regulatory provisions stipulating that at least every three years it must perform an actuarial assessment of Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec. When the financial statements were prepared, no actuarial assessment had been published since December 2002.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 24, 2006

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, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 4)	132 582	114 504
Accounts receivable		
Employee contributions	207	221
Employer contributions	558	928
Amounts receivable from beneficiaries	9	13
	774	1 162
Cash on hand	84	67
	<u>133 440</u>	<u>115 733</u>
LIABILITIES		
Contribution refunds and pensions payable	113	249
Prepaid employer contributions	744	
Administrative expenses payable	83	331
	<u>940</u>	<u>580</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u><u>132 500</u></u>	<u><u>115 153</u></u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2005

(in thousands of dollars)

	2005		2004	
INCREASE IN NET ASSETS				
Employee contributions, including contributions for past service		1 904		2 132
Employer contributions, including contributions for past service				
Pension Plan of Elected Municipal Officers	5 684		6 271	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 266</u>	7 950	<u>2 616</u>	8 887
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)				
Pension Plan of Elected Municipal Officers	4 894		3 943	
Supplemental Pension Plan for Elected Municipal Officials	<u>29</u>	4 923	<u>(45)</u>	3 898
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		11 646		8 014
Other interest income		<u>5</u>		<u>6</u>
		<u>26 428</u>		<u>22 937</u>
DECREASE IN NET ASSETS				
Benefits paid				
Pensions				
Pension Plan of Elected Municipal Officers	6 541		6 511	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 293</u>	8 834	<u>2 295</u>	8 806
Contribution refunds and transfers, including interest				
Pension Plan of Elected Municipal Officers	149		289	
Supplemental Pension Plan for Elected Municipal Officials	<u>2</u>	151	<u>21</u>	310
Administrative expenses				
Pension Plan of Elected Municipal Officers	96		108	
Supplemental Pension Plan for Elected Municipal Officials		<u>96</u>	<u>259</u>	<u>367</u>
		<u>9 081</u>		<u>9 483</u>
NET INCREASE FOR THE YEAR		17 347		13 454
NET ASSETS AVAILABLE FOR BENEFITS - BEGINNING OF YEAR		<u>115 153</u>		<u>101 699</u>
NET ASSETS AVAILABLE FOR BENEFITS - END OF YEAR		<u>132 500</u>		<u>115 153</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Elected Municipal Officers

Supplemental Pension Plan for Elected Municipal Officials

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the Act respecting the Pension Plan of Elected Municipal Officers (R.S.Q., c. R-9.3) and Order-in-Council 1440-2002 of the Gouvernement du Québec.

a) General information

The Pension Plan of Elected Municipal Officers (PPEMO) and Supplemental Pension Plan for Elected Municipal Officials (SPPEMO) are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to members of a municipal council that passes a by-law to join the plan.

The SPPEMO, which has been in effect since January 1, 2002, applies to elected municipal officials in office at December 31, 2000 and to persons entitled to a PPEMO pension at this date.

b) Funding

PPEMO benefits are funded by contributors and municipalities according to the contribution rates stipulated in the Act and the related regulations.

SPPEMO benefits are funded by the municipalities subject to the PPEMO at December 31, 2000.

The amounts needed to cover the administrative expenses for the fiscal year are assumed by municipalities.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 69 or, if they are no longer members of a municipal council and have at least two years' pensionable service, at age 60.

Contributors are entitled to an actuarially reduced pension at age 50 and if they have at least two years' pensionable service.

For each year of service prior to January 1, 1992, contributors are entitled to a pension credit equal to 3.5% of pensionable earnings less 0.7% of the lesser of these earnings or the maximum admissible earnings under the Act respecting the Québec Pension Plan and, for each year of service subsequent to December 31, 1991, to a pension credit equal to 2% of the pensionable service. This pension credit is fully indexed to the increase in the cost of living every year until the contributor retires.

Those persons to whom the SPPEMO applies acquire the right to a supplemental benefit the same date they become eligible for a PPEMO retirement pension. The benefits for contributors in office at December 31, 2000 correspond to the surplus of 3.75% of pensionable earnings on the pension credit calculated for the PPEMO for each year prior to January 1, 2002. These amounts are indexed the same way as PPEMO pension credits.

For retirees and surviving spouses, the supplemental pension corresponds to 24.1% of the annual pension payable on December 31, 2001. For contributors not working at December 31, 2000, the supplemental benefit corresponds to 24.1% of the annual pension payable the date the benefit is paid.

d) Death benefits

If the person dies while contributing to the PPEMO, is eligible for a retirement pension without deduction or receives a retirement pension, his spouse is entitled to a pension of 60% of the pension the person would have been entitled to receive or was receiving. If the person has no spouse, the contributions with interest are reimbursed to the heirs, minus any benefits paid by the PPEMO.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension Plan of Elected Municipal Officers

Supplemental Pension Plan for Elected Municipal Officials (cont'd)

d) Death benefits (cont'd)

If the person dies before being eligible for a retirement pension without an actuarial reduction and has at least two years of service, contributions with interest are reimbursed to the heirs. If the person has two years of service or more, his or her heirs are entitled to the actuarial valuation of the pension acquired under the PPEMO or SPPEMO.

e) Severance benefits

A person who stops contributing to the PPEMO before being eligible for a retirement pension is eligible for reimbursement of his or her contributions plus interest. If the person is under age 50 and has from two to seven years of service, he or she can choose between having his or her contributions reimbursed with interest or an indexed, deferred pension payable at age 60. If the person is under age 50 and has at least eight years of service, he or she is eligible for an indexed, deferred pension payable at age 60.

The deferred pension includes the amounts of pension credits acquired under the PPEMO or SPPEMO.

f) Indexation of benefits

Pension benefits under the PPEMO are partially indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities and reporting contributions, revenues from the funds entrusted to the Caisse de dépôt et placement du Québec and benefits over the period covered by the financial statements. The 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 RPSEM 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 2003, 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 FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(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 and the administrative fees paid by this plan during the fiscal year.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005	2004
Participation deposits in the individual fund – at fair value (cost 2005: 142 542; 2004: 124 788) *	131 319	113 838
Demand deposits in the General Fund	265	148
Revenue receivable from individual fund	998	518
	<u>132 582</u>	<u>114 504</u>
 * Cost of units	 111 502	 103 199
Cumulated gains realized, but not yet distributed by individual portfolios	<u>31 040</u>	<u>21 589</u>
	<u>142 542</u>	<u>124 788</u>

5. FINANCIAL INSTRUMENTS

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

6. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPEMO administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the PPEMO prepared on the basis of data as at December 31, 2003 and presented to the pension 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 accrued benefits under the PPEMO at \$115 954 000 and those under the SPPEMO at \$46 883 000 at December 31, 2003 and estimated the total value of accrued benefits for these plans at \$177 222 000 at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2005	2004
Actuarial present value of accrued pension benefits - beginning of year	165 549	158 162
Increase		
Change in actuarial assumptions	5 358	
Interest	11 241	10 946
Benefits accrued	5 407	5 557
	22 006	16 503
Decrease		
Actuarial gain	1 348	
Benefits paid	8 985	9 116
	10 333	9 116
Net increase for the year	11 673	7 387
Actuarial present value of accrued pension benefits - end of year	177 222	165 549
Composed of:		
PPEMO	128 968	119 467
SPPEMO	48 254	46 082
	177 222	165 549

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

The medium-term rates represent the average rates for the period 2004 to 2013, while the long-term rates represent the rates used as of 2014.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousands of dollars)

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

	<u>2005</u>	<u>2004</u>
Revenue from participation deposits in the individual fund	4 909	3 885
Interest on demand deposits in the General Fund	<u>14</u>	<u>13</u>
	<u>4 923</u>	<u>3 898</u>
Change in fair value		
Gains (losses) realized on the sale of investments	2 659	(471)
Gains realized by individual portfolios	9 260	4 188
Unrealized gains (losses)	<u>(273)</u>	<u>4 297</u>
	<u><u>11 646</u></u>	<u><u>8 014</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Elected Municipal Officers according to the contributors' profile as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$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, CARRIED OUT FOR
THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL
STATEMENTS**

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 26, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for Elected Municipal Officials according to the contributors' profile as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$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,
CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN
IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2005 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 21, 2006

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, 2005

(in thousand of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments		
Fund entrusted to the Caisse de dépôt et placement du Québec (Note 3)	11 332	11 126
LIABILITIES		
Pensions payable	<u>29</u>	<u>122</u>
NET ASSETS AVAILABLE POUR FOR BENEFITS (Note 5)	<u><u>11 303</u></u>	<u><u>11 004</u></u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2005

(in thousand of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN NET ASSETS		
Revenue from funds entrusted to the Caisse de dépôts et placement du Québec (Note 6)	446	409
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>1 180</u>	<u>1 048</u>
	<u>1 626</u>	<u>1 457</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	1 220	1 228
Contribution refunds and transfers, including interest	<u>107</u>	<u>160</u>
	<u>1 327</u>	<u>1 388</u>
NET INCREASE FOR THE YEAR	299	69
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>11 004</u>	<u>10 935</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u><u>11 303</u></u>	<u><u>11 004</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for the Mayors and Councillors of Municipalities is given as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting retirement plans for the mayors and councillors of municipalities (R.S.Q., c. R-16).

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to members of a municipal council that passes a by-law to join the plan.

The right to participate in the Retirement Plan for the Mayors and Councillors of Municipalities was abolished with the coming into force of the Pension Plan of Elected Municipal Officers (R.S.Q., c. R-9.3) on January 1, 1989.

b) Funding

Benefits are taken from the pension fund created for the plan. When there are no more beneficiaries, there is likely to be a surplus or a deficit. Since the Act governing the plan does not specify to whom the surplus at the end of the plan belongs or who will assume payment of the benefit until it expires, the parties concerned (government, employers and contributors) will eventually have to rule on this matter.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors were entitled to benefits if they had accumulated at least eight years' pensionable service. The pension is calculated on the basis of the amount of employee and employer contributions, plus interest, which have accumulated in the contributor's account. This pension is payable at age 60 and is not indexed to the cost of living increase.

d) Death benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or are entitled to receive the pension until the 15-year period expires or, on request, an amount equal to the pension's present value.

If a person dies before beginning to receive his retirement pension, his spouse or heirs are entitled to reimbursement of the amounts accumulated in his account.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities and reporting contributions, revenues from the funds entrusted to the Caisse de dépôt et placement du Québec and benefits over the period covered by the financial statements. The 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousand of dollars)

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005	2004
Participation deposits in the individual fund – at fair value (cost 2005: 12 207; 2004: 12 136) *	11 246	11 071
Demand deposits in the General Fund		5
Revenue receivable from the individual fund	86	50
	<u>11 332</u>	<u>11 126</u>
 * Cost of units	 8 797	 9 370
Cumulated gains realized, but not yet distributed by individual portfolios	<u>3 410</u>	<u>2 766</u>
	<u>12 207</u>	<u>12 136</u>

4. FINANCIAL INSTRUMENTS

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

5. PENSION OBLIGATIONS

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation for the Retirement plan for the mayors and councillors of municipalities conducted on the basis of data as at December 31, 2003 and tabled before the retirement committee on November 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 \$11 959 000 as at December 31, 2005.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousand of dollars)

5. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2005	2004
Actuarial present value of accrued pension benefits - beginning of year	13 050	13 539
Increase		
Correction to participation data	7	
Interest	793	899
	800	899
Decrease		
Actuarial gain	359	
Change in actuarial assumptions	205	
Benefits paid	1 327	1 388
	1 891	1 388
Net decrease for the year	1 091	489
Actuarial present value of accrued pension benefits - end of year	11 959	13 050

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

	2005	2004
Net investment income from the individual fund	446	409
Change in fair value		
Gains (losses) realized on the sale of investments	241	(38)
Gains realized by individual portfolios	835	444
Unrealized gains	104	642
	1 180	1 048

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for the Mayors and Councillors of Municipalities according to the contributors' profile as at December 31, 2003 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$13 100 000.

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, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 21, 2006

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, 2005

(in thousand of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	68 896	62 289
Accounts receivable		
Employee contributions	6	10
Employer contributions	2	4
	8	14
	<u>68 904</u>	<u>62 303</u>
LIABILITIES		
Surplus employee contributions to be refunded	1	1
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u>68 903</u>	<u>62 302</u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2005

(in thousand of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	25	27
Employer contributions, including contributions for past service	20	22
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	2 523	2 225
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>6 255</u>	<u>4 594</u>
	<u>8 823</u>	<u>6 868</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	<u>2 222</u>	<u>2 264</u>
NET INCREASE FOR THE YEAR	6 601	4 604
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>62 302</u>	<u>57 698</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u><u>68 903</u></u>	<u><u>62 302</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges is given as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 2497-81 and 397-78 of the Gouvernement du Québec.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to certain active employees of the Centre hospitalier Côte-des-Neiges and certain other hospital centres.

b) Funding

Benefits are funded by contributors according to the contribution rates set by Orders-in-Council 2497-81 and 397-78 and hospital centres, which assume the remainder of the pension benefit obligations.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60 if they have five or more years' pensionable service or, if they have 30 or more years' pensionable service, at age 55.

Contributors are entitled to an actuarially reduced pension at age 50 if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable salary for the six consecutive best-paid years by 2% per year of service (maximum 35 years' service). The pension is reduced beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

A disability benefit is payable to participants that become disabled. The latter is calculated like regular benefits based on the number of years of service accumulated under the Plan.

e) Death benefits

If a person dies with less than five years of service or when receiving a retirement pension, his or her spouse is entitled to a pension of 50% of the amount that the person entitled to receive the pension or receiving it was entitled to, without taking into account the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible to receive a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If the person dies and has less than five years of service, the spouse, or if there is no spouse, the heirs, are entitled to reimbursement of the contributions with interest.

f) Severance benefits

Persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a deferred indexed pension at age 60 if they have at least 10 years' pensionable service and are aged 45 or over; otherwise, they can choose between a deferred pension or the refund of contributions with interest.

g) Indexation of benefits

Pension benefits under this plan are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousand of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities and reporting contributions, revenues from the funds entrusted to the Caisse de dépôt et placement du Québec and benefits over the period covered by the financial statements. The 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 is more than sufficient to cover all future plan benefits. The parties concerned will have to examine the plan's funding, given the surplus assets.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005	2004
Participation deposits in the individual fund – at fair value (cost- 2005: 75 232; 2004: 68 511) *	68 382	61 858
Demand deposits in the General Fund	2	6
Revenue receivable from the individual fund	512	425
	<u>68 896</u>	<u>62 289</u>
 * Cost of units	 57 305	 55 555
Cumulated gains realized, but not yet distributed by the individual portfolios	17 927	12 956
	<u>75 232</u>	<u>68 511</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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 near future.

6. PENSION OBLIGATIONS

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$30 728 006 as at December 31, 2000 and estimated it at \$30 792 000 as at December 31, 2005.

Changes in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	<u>30 737</u>	<u>30 790</u>
Increase		
Interest	2 153	2 080
Benefits accrued	<u>124</u>	<u>131</u>
	 2 277	 2 211
Decrease		
Benefits paid	 2 222	 2 264
Net increase (decrease) for the year	<u>55</u>	<u>(53)</u>
Actuarial present value of accrued pension benefits – end of year	<u><u>30 792</u></u>	<u><u>30 737</u></u>

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	4.00 %	2.75 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	0.65

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(in thousand of dollars)

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

	<u>2005</u>	<u>2004</u>
Net investment income from the individual fund	2 523	2 223
Interest on demand deposits in the General Fund		<u>2</u>
	<u>2 523</u>	<u>2 225</u>
Change in fair value		
Gains realized on the sale of investments	1 480	468
Gains realized by the individual portfolios	4 971	2 247
Unrealized gains (losses)	<u>(196)</u>	<u>1 879</u>
	<u>6 255</u>	<u>4 594</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****ACTUARIAL VALUATION**

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for Active Members of the Centre hospitalier Côte-des Neiges according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$30 728 006.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
AT DECEMBER 31, 2000, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, October 24, 2002

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****AUDITOR'S REPORT**

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2005 and changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Compliance with legislative and regulatory provisions

The Commission administrative des régimes de retraite et d'assurances did not obey the legislative and regulatory provisions stipulating that at least every three years it must perform an actuarial assessment of Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges. When the financial statements were prepared, no actuarial assessment had been published since October 2002.

Renaud, Lachance, CA
Auditor General of Québec

Québec, March 24, 2006

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, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 3)	\$1 431 996	\$1 376 426
Cash on hand	<u>269</u>	<u>266</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 5 and 6)	<u><u>\$1 432 265</u></u>	<u><u>\$1 376 692</u></u>

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2005**

	<u>2005</u>	<u>2004</u>
INCREASE IN NET ASSETS		
Employer contributions, including contributions for past service	\$7 516	\$6 859
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	54 598	52 211
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>143 862</u>	<u>112 885</u>
	<u>205 976</u>	<u>171 955</u>
DECREASE IN NET ASSETS		
Benefits paid Pensions	<u>150 403</u>	<u>157 122</u>
NET INCREASE FOR THE YEAR	55 573	14 833
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>1 376 692</u>	<u>1 361 859</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u><u>\$1 432 265</u></u>	<u><u>\$1 376 692</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. DESCRIPTION OF THE PLANS

Pension plan of the former employees of the City of Saint-Laurent

The following description of the Pension Plan of the Former Employees of the City of Saint-Laurent is given as a matter of information. To obtain more complete information concerning this plan, please consult Order-in-Council 842-82 of the Gouvernement du Québec.

a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to former employees of the City of Saint-Laurent's health and social services sector who, since September 19, 1976, have been in a job covered by the Government and Public Employees Retirement Plan (RREGOP).

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Death benefits

Upon the death of a beneficiary, the surviving spouse or heirs are entitled to reimbursement of the person's contributions without interest minus any benefits paid.

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan of the former employees of the Town of Westmount

The following description of the Pension Plan of the Former Employees of the Town of Westmount is given as a matter of information. To obtain more complete information concerning this plan, please consult Order-in-Council 2174-84 of the Gouvernement du Québec.

a) General information

The Plan is administered by CARRA. It is a defined-benefit pension plan offered to former employees of the Town of Westmount who contributed to the general pension plan of the Town of Westmount and who were integrated into the Montreal General Hospital as of April 1, 1976.

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Death benefits

If a person dies having received a retirement pension for less than five years, the surviving spouse or heirs are entitled to the pension until this five-year period expires or to the pension's current value.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS**

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

1. DESCRIPTION OF THE PLANS (cont'd)**Pension plan of the former employees of the Town of Westmount (cont'd)****d) Indexation of benefits**

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais

The following description of the Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais is given as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 2661-76 and 40-89 of the Gouvernement du Québec:

a) General information

The Plan is administered by CARRA. It is defined-contribution pension plan.

b) Funding

Contributions are no longer paid into this plan, with the exception of employer contributions for the purpose of indexing pensions paid. Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

c) Death benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or are entitled to receive the pension until the 15-year period expires, or an amount equal to the pension's present value.

d) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities and reporting contributions, revenues from the funds entrusted to the Caisse de dépôt et placement du Québec and benefits over the period covered by the financial statements. The 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 FINANCIAL STATEMENTS (cont'd)
December 31, 2005

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2005	2004
Participation deposits in the individual fund – at fair value (cost- 2005: \$1 563 659; 2004: \$1 514 876) *	\$1 421 297	\$1 368 040
Revenue receivable from the individual fund	10 699	8 386
	<u>\$1 431 996</u>	<u>\$1 376 426</u>
 * Cost of units	 \$1 191 650	 \$1 234 041
Cumulated gains realized, but not yet distributed by the individual portfolios	<u>372 009</u>	<u>280 835</u>
	<u>\$1 563 659</u>	<u>\$1 514 876</u>

4. FINANCIAL INSTRUMENTS

The fair value of cash is equal to its book value.

5. NET ASSETS AVAILABLE FOR BENEFITS

	2005	2004
Pension Plan of the Former Employees of the City of Saint-Laurent	\$906 977	\$876 721
Pension Plan of the Former Employees of the Town of Westmount	283 157	263 420
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>242 131</u>	<u>236 551</u>
	<u>\$1 432 265</u>	<u>\$1 376 692</u>

6. PENSION OBLIGATIONS

Valuation of pension obligations

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan (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 2006 to 2013 is 7.16% and is 8% after 2013.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

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

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2005	2004
Actuarial present value of accrued pension benefits, beginning of year	<u>\$1 268 591</u>	<u>\$1 226 475</u>
Increase		
Actuarial loss		57 919
Change in actuarial assumptions	857	60 201
Correction to participant data		766
Interest	<u>77 570</u>	<u>80 352</u>
	78 427	199 238
Decrease		
Actuarial gain	16 568	
Benefits paid	<u>150 403</u>	<u>157 122</u>
	166 971	157 122
Net increase (decrease) for the year	<u>(88 544)</u>	<u>42 116</u>
Actuarial present value of accrued pension benefits, end of year	<u><u>\$1 180 047</u></u>	<u><u>\$1 268 591</u></u>
Composed of:		
Pension Plan of the Former Employees of the City of Saint-Laurent	\$755 631	\$827 358
Pension Plan of the Former Employees of the Town of Westmount	132 303	137 780
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>292 113</u>	<u>303 453</u>
	<u><u>\$1 180 047</u></u>	<u><u>\$1 268 591</u></u>

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

	2005	2004
Net investment income from the individual fund	\$54 559	\$52 108
Interest on demand deposits in the General Fund	<u>39</u>	<u>103</u>
	<u><u>\$54 598</u></u>	<u><u>\$52 211</u></u>
Change in fair value		
Gains realized on the sale of investments	\$31 968	\$5 973
Gains realized by individual portfolios	107 421	51 989
Unrealized gains	<u>4 473</u>	<u>54 923</u>
	<u><u>\$143 862</u></u>	<u><u>\$112 885</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the City of Saint-Laurent according to the contributors' profile as at December 31, 2005 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$755 631.

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, 2005, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 28, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the Town of Westmount according to the contributors' profile as at December 31, 2005 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$132 303.

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, 2005, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE
PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 28, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Chairman of the Conseil de la Communauté urbaine de l'Outaouais according to the contributors' profile as at December 31, 2005 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$292 113.

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'OUTAOUAI AT DECEMBER 31, 2005, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF
OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, February 28, 2006

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2005 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 21, 2006

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, 2005

(in thousands of dollars)

	2005	2004
CONTRIBUTIONS		
Employee contributions, including contributions for past service		
Pension Plan of the Members of the National Assembly	1 025	1 138
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>1 025</u>	<u>1 138</u>
BENEFITS		
Benefits paid		
Pensions		
Pension Plan of the Members of the National Assembly	8 691	8 545
Supplement pension plan for members of the National Assembly	2 473	2 248
Special Pension	<u>12</u>	<u>12</u>
	11 176	10 805
Contribution refunds and transfer including interest		
Pension Plan of the Members of the National Assembly		216
Administrative expenses		
Pension Plan of the Members of the National Assembly	<u>22</u>	<u>10</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>11 198</u>	<u>11 031</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 5)**

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the members of the National Assembly Supplemental pension plan for members of the National Assembly Special Pension Plan

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the following official texts:

- the Act respecting the conditions of employment and the pension plan of the Members of the National Assembly (R.S.Q., c. C-52.1);
- the Regulation respecting the supplemental pension plan of members of the National Assembly;
- the Act granting a pension to the widow of Pierre Laporte (Q.S., 1970, c. 6).

a) General information

The Pension Plan of the Members of the National Assembly (PPMNA) and the Supplemental pension plan of members of the National Assembly (SPPMNA) are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to the Members of the National Assembly. The special pension constitutes the benefits granted to the widow of Pierre Laporte.

b) Funding

For the PPMNA, benefits are funded by participants according to the contribution rate set by the Act and by the Government, which assumes the remaining benefit obligations.

For the SPPMNA and the special pension, benefits are entirely funded by the Government.

c) Retirement benefits

A contributor who ceases to be a Member of the National Assembly is entitled to benefits without any actuarial reduction at age 60, or to an actuarially reduced pension if he or she is under 60. However, this pension is payable, at the latest, on December 31 of the year in which the contributor turns 69, even if he or she is still a Member of the National Assembly.

The pension is equal to total pension credits calculated annually by multiplying the admissible indemnity received by 1.75%, without exceeding 25 years' participation. These pension credits are indexed to the cost of living increase up until the time the contributor retires.

Any contributor who was an MNA prior to January 1, 1983 and at January 1, 1992, is also entitled to a pension equal to 75% of total contributions credited prior to January 1, 1983, which were not reimbursed and which were indexed since 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 of service.

Contributors acquire the right to SPPMNA benefits the date they acquire the right to a retirement pension under the basic plan. The benefit equals the total of the amounts calculated annually, which corresponds to the surplus of 4% of the total annual compensation over the pension credit calculated according to the PPMNA. Benefits are indexed to the rise in the cost of living until the contributor retires.

The amount of the special pension paid to the widow of Pierre Laporte was set by law.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND PECIAL PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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 to receive 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 the accounting principles that are generally accepted in Canada, pension obligations must be determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data at December 31, 1999 and presented to the retirement committee on November 7, 2001. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2005

(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 \$140 341 000 as at December 31, 2001 and estimated it at \$155 476 000 as at December 31, 2005.

Change in pension obligations

	2005	2004
Actuarial present value of accrued pension benefits – beginning of year	151 510	147 522
Increase		
Interest	10 738	10 113
Benefits accrued	4 404	4 896
	15 142	15 009
Decrease		
Benefits paid	11 176	11 021
Net increase for the year	3 966	3 988
Actuarial present value of accrued pension benefits – end of year	155 476	151 510

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	4.00 %	2.80 %
Rate of return net of inflation	4.75	4.75
Salary escalation rate net of inflation	1.25	1.30

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield is determined by presuming that, if these plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with generally recognized accounting policies applicable to the public sector in Canada. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The pension costs for the plans correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2005	2004
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	<u>153 449</u>	<u>152 496</u>
Increase		
Contributions recovered	1 034	1 064
Pension costs		
Current service	3 429	3 545
Past service	(2 709)	(2 709)
Interest	<u>9 824</u>	<u>9 585</u>
	11 578	11 485
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	<u>11 284</u>	<u>10 532</u>
Net increase	<u>294</u>	<u>953</u>
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	<u>153 743</u>	<u>153 449</u>
Estimated liability recorded as at December 31	<u><u>153 749</u></u>	<u><u>153 399</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, 2005: \$54 619 billion). At December 31, 2005, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$20 858 billion, \$10 720 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 469 billion for the Pension Plan of Management Personnel.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$103 322 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE MEMBERS OF THE NATIONAL ASSEMBLY AT DECEMBER 31, 2001,
CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN
IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$37 019 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR THE MEMBERS OF THE NATIONAL ASSEMBLY AT
DECEMBER 31, 2001, CARRIED OUT FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 8, 2003

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans of the Members of the National Assembly and of the special pension plan for the year ended December 31, 2005. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits for these plans for the year ended December 31, 2005, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Acting Auditor General of Québec

Québec, March 21, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. R-10)

INCOME AND SURPLUS
for the year ended December 31, 2005
(in thousand of dollars)

	2005	2004
EXPENDITURE		
Salaries and fringe benefits	27 719	27 785
Professional fees	4 808	4 784
Communications and transportation	1 945	1 808
Space and equipment rental	2 495	2 332
Equipment	1 664	1 029
Office supplies	333	364
Maintenance and repairs	906	776
Interest on long-term debt	47	39
Other expenses	88	68
Depreciation of fixed assets	3 261	2 823
	<u>43 266</u>	<u>41 808</u>
REVENUE		
Expenses assumed by the RREGOP		
Employee contributions fund	17 792	16 023
Employer contributions fund	17 792	16 068
Expenses assumed by the PPMP		
Employee contributions fund	1 447	1 379
Employer contributions fund	1 447	1 379
Other plans	4 759	6 755
Other sources	120	195
	<u>43 357</u>	<u>41 799</u>
SURPLUS (DEFICIT) FOR THE YEAR	91	(9)
SURPLUS – BEGINNING OF YEAR	<u>9</u>	<u>18</u>
SURPLUS – END OF YEAR	<u>100</u>	<u>9</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

BALANCE SHEET
as at December 31, 2005
(in thousand of dollars)

	2005	2004
ASSETS		
Current assets		
Cash on hand	825	558
Accounts receivable	4 839	3 054
Demand deposit to the Caisse de dépôt et placement du Québec – at cost (3.25%)	3 037	3 109
	<u>8 701</u>	<u>6 721</u>
Fixed assets (Note 3)	21 654	13 386
Owed by the pension plans	9 354	6 772
	<u>31 008</u>	<u>20 158</u>
	<u>39 709</u>	<u>26 879</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	5 338	3 082
Instalments on long-term debt (Note 5)	323	237
	<u>5 661</u>	<u>3 319</u>
Long-term debt (Note 5)	2 332	291
Deferred contributions (Note 6)	21 654	13 386
Provision for sick leave and vacation time (Note 7)	9 962	9 874
	<u>39 609</u>	<u>26 870</u>
SURPLUS	100	9
	<u>39 709</u>	<u>26 879</u>

COMMITMENTS (Note 11)

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
and Material Resources

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CASH FLOW
for the year ended December 31, 2005
(in thousand of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Surplus (deficit) for the year	91	(9)
Items not affecting liquid assets		
Depreciation of fixed assets	3 261	2 823
Amortization of deferred contributions	<u>(3 261)</u>	<u>(2 823)</u>
	-----91	----- (9)
Changes in assets and liabilities related to operation		
Accounts receivable	(1 785)	(578)
Owed by the pension plans	(2 582)	(369)
Accounts payable and accruals	604	840
Deferred contributions – financing from plans	11 529	5 119
Provisions for sick leave and vacation time	<u>88</u>	<u>321</u>
	-----7 854	----- 5 333
Cash flows from operating activities	<u>7 945</u>	<u>5 324</u>
FINANCING ACTIVITIES		
Cash flows from financing activities		
Repayment of the long-term debt	<u>(294)</u>	<u>(218)</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of fixed assets	<u>(7 456)</u>	<u>(5 080)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	195	26
CASH AND CASH-EQUIVALENTS – BEGINNING OF YEAR	<u>3 667</u>	<u>3 641</u>
CASH AND CASH EQUIVALENTS – END OF YEAR (Note 8)	<u><u>3 862</u></u>	<u><u>3 667</u></u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**NOTES TO FINANCIAL STATEMENT**

December 31, 2005

(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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed assets

Fixed assets are recorded at cost. Computer systems development includes the cost of administrative design, preparation and implementation.

Fixed assets are amortized using the straight-line method over their 5-year service life.

Amortization of a fixed asset being developed begins when the computer system becomes operational.

Depreciation of long-term assets

Long-term assets are reviewed to determine whether their value has decreased when events or changes in the situation lead one to believe that the book value of an asset might not be recoverable. The depreciation is estimated by comparing the book value of an asset with the net unrealized cash flows foreseen for its use and eventual transfer. If CARRA deems that the value of the assets has decreased, the amount of the depreciation is posted to the fiscal year's charges.

Deferred contributions

Contributions received for the acquisition of amortizable fixed assets are deferred and transferred to results using the same method and same rates as those used for the amortization of the fixed assets they are related to.

Pension plans

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

Cash and cash equivalents

CARRA's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2005

(in thousand of dollars)

3. FIXED ASSETS

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Fixed assets				
Integrated furniture	5 574	2 560	3 014	789
Computer equipment	4 108	2 153	1 955	1 634
Equipment	44	17	27	36
	9 726	4 730	4 996	2 459
Intangible assets				
Computer system development *				
PGI projects	7 029		7 029	3 394
Other projects	20 435	10 806	9 629	7 533
	27 464	10 806	16 658	10 927
	37 190	15 536	21 654	13 386

The cost of fixed assets includes an unamortized amount of \$10 721 351, since development work had not been completed and the systems were not yet operational at fiscal year-end.

This amount breaks down as follows:

- PGI projects: \$7 028 875 for computer system development (2004: \$3 394 114);
- other projects: \$3 615 396 for computer system development (2004: \$1 380 378);
- computer equipment: \$77 080 (2004: \$596 142).

* CARRA undertook a complete, in-depth modernization of its business processes and its systems. This process materialized in the preparation of a global investment plan proposing a renewed business vision and new corporate structure. In this context, CARRA presents separately in its financial statements, in the "Fixed assets" section, Plan global d'investissement (PGI) projects, including the Renouvellement et intégration des systèmes essentiels (RISE) project and others.

4. SHORT-TERM BORROWINGS

On December 14, 2005, the Gouvernement du Québec authorized CARRA to contract short-term borrowings or borrowings on a credit line until December 31, 2009 to finance the PGI. The amount of these borrowings is limited to \$87 136 735.

The borrowings will be contracted from the Minister of Finance, acting as manager of the Financing Fund. The interest rate applied daily to the balance of borrowings corresponds to the average one-month bank acceptance rate shown on the Reuters CDOR page. A 3% margin is added to this rate for borrowing issuing and management fees.

At December 31, 2005, CARRA had no bank borrowings.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2005

(in thousand of dollars)

5. LONG-TERM DEBT

	2005	2004
Borrowings from the Société immobilière du Québec		
Rate of 5.00%, repayable in monthly instalments of \$792, maturing October 31, 2006	8	16
Rate of 5.52%, repayable in monthly instalments of \$403, maturing February 28, 2009	14	18
Borrowing maturing in June 2005		4
Rate of 5.52%, repayable in monthly instalments of \$1 526, maturing April 30, 2008	40	56
Rate of 5.52%, repayable in monthly instalments of \$2 697, maturing April 30, 2008	71	98
Rate of 6.68%, repayable in monthly instalments of \$4 898, maturing March 31, 2006	14	70
Rate of 6.68%, repayable in monthly instalments of \$7 152, maturing September 30, 2006	63	141
Rate of 6.08%, repayable in monthly instalments of \$3 613, maturing September 30, 2007	72	110
Rate of 6.08%, repayable in monthly instalments of \$494, maturing September 30, 2007	10	15
Rate of 4.69%, repayable in monthly instalments of \$2 726, maturing March 31, 2010	126	
Rate of 4.69%, repayable in monthly instalments of \$731, maturing August 31, 2007	14	
Rate of 4.69%, repayable in monthly instalments of \$11 115, maturing August 31, 2020	1 412	
Rate of 4.69%, repayable in monthly instalments of \$6 308, maturing November 30, 2020	811	
	2 655	528
Portion maturing in the coming fiscal year	323	237
	2 332	291

Capital payments to be made over the next five fiscal years

2006	323
2007	235
2008	169
2009	156
2010	137
	1 020

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2005

(in thousand of dollars)

6. DEFERRED CONTRIBUTIONS

	2005	2004
Opening balance	13 386	11 090
Deferred contributions for the fiscal year		
Funding from plans	11 529	5 119
Amortization of deferred contributions	(3 261)	(2 823)
Closing balance	21 654	13 386

7. FUTURE FRINGE BENEFITS**Pension plans**

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

CARRA's contributions charged to the year-end statement amount to \$1 463 287 (2004: \$1 633 002). CARRA's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2005			2004
	Sick leave	Vacation time	Total	Total
Opening balance	6 846	3 028	9 874	9 553
Plus				
Expenditures for the year	775	2 480	3 255	3 430
Less				
Benefits paid during the year	879	2 288	3 167	3 109
Closing balance	6 742	3 220	9 962	9 874

The provision for sick leave and vacation time is fully recoverable from the various pension plans.

8 CASH FLOWS

The cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

	2005	2004
Cash	825	558
Demand deposit to the Caisse de dépôt et placement du Québec	3 037	3 109
	3 862	3 667

The interest paid by CARRA over the fiscal year was \$46 568 (2004: \$38 673).

During the fiscal year, CARRA acquired fixed assets at a cost of \$11 528 765 (2004: \$5 119 689), \$1 652 281 of which is included in supplier accounts at December 31, 2005. It also took on a long-term debt of \$2 420 572 (2004: \$39 336).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2005

(in thousand of dollars)

9. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM

CARRA has administered a retirement preparation program for employees of the Gouvernement du Québec. CARRA has been authorized to bill the government departments and agencies for the costs related to meetings and to establish a local fund for this purpose. Fund transactions break down as follows:

	2005	2004
Opening local fund balance	65	111
Revenue	991	922
Expenditure	(1 009)	(968)
Closing local fund balance	47	65

10. FINANCIAL INSTRUMENTS**Credit risk**

CARRA is not subject to any major credit risk vis-à-vis its debtors and the item "Owed by the pension plans", since almost all receivables come from pension plan funds.

Interest rate risk

Financial assets and liabilities bearing interest at a fixed rate do not expose CARRA to major rate fluctuation risks. For variable-rate financial instruments, each 1% fluctuation in the interest rate on their balance at fiscal year-end causes net results to vary by \$30 287.

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, 2005 is \$2 668 028 (2004: \$541 462).

11. COMMITMENTS

At December 31, 2005, the contractual commitments for the acquisition of goods and services related to equipment lease contracts and professional fees break down as follows:

2006	12 534
2007	12 541
2008	11 496
2009	5 564
2010	6 518
	<u>48 653</u>

12. COMPARATIVE FIGURES

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

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**MANAGEMENT'S REPORT**

The financial statements of CARRA were drawn up by management, which is responsible for their preparation, presentation and the significant estimates and judgements included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements. In the case of estimates, they were made to the best of management's knowledge.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The internal audit department periodically audits different areas of CARRA's operations. This audit includes reviewing and assessing the existence, relevance and adequacy of management's internal accounting controls.

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

CARRA actuaries carry out an actuarial valuation every three years as well as an annual estimate of the pension obligations entered in CARRA's financial statements in accordance with generally accepted actuarial practices. They report the results of their valuation to CARRA.

Draft financial statements for the RREGOP, PPMP and PPEMO were presented to the auditing committees concerned for examination and reporting to CARRA.

The Auditor General of Québec has audited the CARRA's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committees to discuss any element concerning his audit.

Duc Vu
Chairman of the Commission

Martin Fortier, CA
Director of Financial
Resources and Materials

Québec, March 30, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission administrative des régimes de retraite et d'assurances for the year ended December 31, 2005 and the change in net assets available for benefits statement for the year then ended. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 27, 2006

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC
(R.S.Q., c. C-33.1)

INCOME STATEMENT
for the year ended March 31, 2006

	2006			2005
	Current transactions	Fund to develop and enhance the capital	Total	Total
REVENUES				
Gouvernement du Québec subsidies (Note 3)	\$12 815 808		\$12 815 808	\$14 407 992
Partners' contributions (Note 4)	499 679		499 679	2 001 924
Interest	152 410	\$49 522	201 932	195 944
Rental	109 996		109 996	98 678
Other	73 173		73 173	71 304
	<u>13 651 066</u>	<u>49 522</u>	<u>13 700 588</u>	<u>16 775 842</u>
EXPENSES				
Financial assistance (Note 5)	5 456 766	64 874	5 521 640	6 310 046
Salaries and fringe benefits	2 061 964		2 061 964	2 136 828
Property and school taxes	942 746		942 746	925 568
Professional and administrative services	1 250 291	258 570	1 508 861	3 642 548
Transportation and communications	228 742		228 742	273 300
Maintenance and repairs	475 510		475 510	348 792
Materials and supplies	178 696	4 104	182 800	322 220
Rent	486 155		486 155	456 533
Depreciation of fixed assets	265 121		265 121	488 582
Financial expenses (Note 6)	1 508 665		1 508 665	1 664 284
	<u>12 854 656</u>	<u>327 548</u>	<u>13 182 204</u>	<u>16 568 701</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$796 410</u>	<u>\$(278 026)</u>	<u>\$518 384</u>	<u>\$207 141</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, 2006

	2006				2005
	Current transactions		Fund to develop and enhance the capital	Total	Total
	Investments in tangible fixed assets	Fund balance			
OPENING BALANCE	\$947 039		\$2 501 225	\$3 448 264	\$3 241 123
Excess (deficiency) revenues over expenses	(265 121)	\$1 061 531	(278 026)	518 384	207 141
Investments in tangible fixed assets	243 093	(243 093)			
	<u>925 011</u>	<u>818 438</u>	<u>2 223 199</u>	<u>3 966 648</u>	<u>3 448 264</u>
Inter-fund transfer (Notes 2 and 17)		(818 438)	818 438		
CLOSING BALANCE	<u>\$925 011</u>	<u></u>	<u>\$3 041 637</u>	<u>\$3 966 648</u>	<u>\$3 448 264</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006			2005
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
ASSETS				
Current assets				
Cash on hand	\$861 691	\$1 979 907		\$2 841 598
Accounts receivable and interest accrued	81 982	6 062		88 044
Inter-fund receivable, interest-free and no repayment terms		1 135 340	\$(1 135 340)	
Prepaid expenses	227 639			227 639
Gouvernement du Québec subsidies receivable	4 463 135			4 463 135
Contributions receivable (Note 7)	1 121 908			1 121 908
	<u>6 756 355</u>	<u>3 121 309</u>	<u>(1 135 340)</u>	<u>8 742 324</u>
Cash reserved for acquisition of fixed assets	512 316			512 316
Deposit on acquisition of fixed assets (Note 8)	2 089 010			2 089 010
Gouvernement du Québec subsidies receivable	29 522 908			29 522 908
Contributions receivable (Note 7)	30 000			30 000
Deferred expenses, at amortized cost	136 100			136 100
Fixed assets (Note 9)	<u>24 693 188</u>			<u>24 693 188</u>
	<u>\$63 739 877</u>	<u>\$3 121 309</u>	<u>\$(1 135 340)</u>	<u>\$65 725 846</u>
				<u>\$55 939 249</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2006

	2006			2005
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total
LIABILITIES				
Current liabilities				
Suppliers and other creditors (Note 11)	\$2 579 014	\$79 672		\$2 658 686
Inter-fund receivable, interest-free and no repayment terms	1 135 340		\$(1 135 340)	
Deferred Gouvernement du Québec subsidies (Note 12)	232 380			232 380
Deferred contributions (Note 13)	1 032 668			1 032 668
Portion of debt due next year (Note 14)	4 464 788			4 464 788
	<u>9 444 190</u>	<u>79 672</u>	<u>(1 135 340)</u>	<u>8 388 522</u>
Deferred contributions (Note 13)	55 465			55 465
Long-term debt (Note 14)	29 070 450			29 070 450
Deferred contributions reserved for acquisition of fixed assets	512 316			512 316
Deferred contributions related to fixed assets (Note 15)	5 662 424			5 662 424
	<u>44 744 845</u>	<u>79 672</u>	<u>(1 135 340)</u>	<u>43 689 177</u>
EQUITY				
Gouvernement du Québec contribution (Note 16)	18 070 021			18 070 021
Fund balance				
Invested in fixed assets	925 011			925 011
Fund to develop and enhance the capital		3 041 637		3 041 637
	<u>18 995 032</u>	<u>3 041 637</u>		<u>22 036 669</u>
	<u>\$63 739 877</u>	<u>\$3 121 309</u>	<u>\$(1 135 340)</u>	<u>\$65 725 846</u>

COMMITMENTS (Note 18)

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 CAPITALÉ NATIONALE DU QUÉBEC

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006		2005
	Current transactions	Fund to develop and enhance the capital	Total
OPERATING ACTIVITIES			
Receipts			
Gouvernement du Québec subsidies	\$5 735 857		\$5 735 857
Partners' and clients' contributions	629 988		1 182 132
Inter-fund debt		\$130 786	(1 080 867)
Interest earned	165 038	46 537	188 766
Expenditures			
Suppliers and staff members	(16 969 896)	(432 890)	(9 163 902)
Inter-fund debt	(130 786)		1 080 867
Interest paid	(1 518 623)		(1 683 732)
Cash flows (used for) provided by operating activities	(12 088 422)	(255 567)	5 951 845
INVESTMENT ACTIVITIES			
Deposit on acquisition of fixed assets	(2 089 010)		(2 089 010)
Acquisition of fixed assets	(7 204 021)		(401 795)
Cash flows used for investment activities	(9 293 031)		(401 795)
FINANCING ACTIVITIES			
Cash reserved for the acquisition of fixed assets	(32 992)		63 119
Long-term debt	8 400 642		8 400 642
Repayment of long-term debt	(2 369 382)		(2 386 731)
Deferred contributions reserved for acquisition of fixed assets	32 992		(63 119)
Deferred contributions related to fixed assets	4 642 853		4 642 853
Gouvernement du Québec contribution	3 581 174		22 261
Cash flows provided by (used for) financing activities	14 255 287		(2 364 470)
INCREASE (DECREASE) IN CASH ON HAND	(7 126 166)	(255 567)	3 185 580
CASH ON HAND, BEGINNING OF YEAR	8 806 295	1 417 036	7 037 751
Inter-fund transfer	(818 438)	818 438	
CASH ON HAND, END OF YEAR	<u>\$861 691</u>	<u>\$1 979 907</u>	<u>\$2 841 598</u>
			<u>\$10 223 331</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 accrued

The Commission uses the deferral method to record contributions. The contributions are accrued in the fiscal year in which the related charges were incurred. The contributions of non-restricted partners are accrued as proceeds when received or receivable if the amount of the receivable can be reasonably estimated and it is relatively certain that it will be forthcoming.

Gouvernement du Québec subsidies receivable

Subsidies receivable for fixed assets and their maintenance are recorded in the fiscal year in which the Commission obtained the funding or carried out the work entitling it to these subsidies.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Financial assistance

Financial assistance is recorded to charges when the facts giving rise to it occur, inasmuch as it was authorized and the beneficiaries met the eligibility criteria, where applicable.

Deferred expenses

Deferred expenses comprise long-term debt issuing and management costs. Amortization is calculated using the straight-line method over the duration of the debt it is related to.

Fixed assets

Fixed assets are recorded at acquisition cost. For parks development, the cost includes interest on the long-term debt and indirect costs 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%
Parks development	Straight-line	20%

Given its historic value, eternal character and classification by the Ministère de la Culture et des Communications, cultural property is not amortized. Development in progress is not amortized.

The Commission regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. 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 interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2006	2005
Ministère des Transports (2005 – Ressources naturelles et de la Faune):		
Operations	\$11 062 820	\$11 248 428
Repayment of interest on the long-term debt	1 442 628	1 573 319
Specific projects		
Development of Avenue Honoré-Mercier	19 325	9 736
Enhancement of National Assembly building	10 546	549 457
Public investment acceleration plan	117 637	933 485
Fontaine de Tourmy	118 900	
Conseil du trésor		24 687
Ministère de la Culture et des Communications		
Repayment of interest on the long-term debt	43 952	68 880
	<u>\$12 815 808</u>	<u>\$14 407 992</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. PARTNERS' CONTRIBUTIONS

	2006	2005
Québec City	\$239 684	\$1 199 985
Séminaire de Québec	36 416	
Ministère des Transports	58 218	29 950
Ministère de la Culture et des Communications	22 018	
Ministère de l'Éducation	15 000	20 000
Assemblée nationale	11 953	516 208
Hydro-Québec	13 769	103 030
Agence de l'efficacité énergétique	4 588	
Société immobilière du Québec	1 519	27 288
Other	96 514	105 463
	<u>\$499 679</u>	<u>\$2 001 924</u>

5. FINANCIAL ASSISTANCE

	2006	2005
Ville de Québec	\$5 000 000	\$5 587 678
Société des jeux mondiaux policiers pompiers – Québec 2005	400 000	400 000
Québec schools	111 706	162 510
Télé-Québec		50 000
Assemblée nationale		12 500
Musée national des beaux-arts du Québec	5 000	5 000
Other	4 934	92 358
	<u>\$5 521 640</u>	<u>\$6 310 046</u>

6. FINANCIAL EXPENSES

	2006	2005
Amortization of deferred expenses	\$22 085	\$22 085
Interest on the long-term debt	1 486 580	1 642 199
	<u>\$1 508 665</u>	<u>\$1 664 284</u>

7. CONTRIBUTIONS RECEIVABLE

	2006	2005
Ville de Québec	\$983 533	\$136 740
Ministère des Transports *	35 000	
Assemblée nationale *	20 000	
Société immobilière du Québec *	20 000	3 000
Ministère de l'Éducation *	15 000	30 000
Other	78 375	66 608
	1 151 908	236 348
Contributions payable in the coming fiscal year	(1 121 908)	(186 348)
	<u>\$30 000</u>	<u>\$50 000</u>

* At March 31, 2006, \$90 000 represented the amount of contributions receivable from bodies under common control (2005: \$33 000).

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**8. DEPOSIT ON ACQUISITION OF FIXED 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.

9. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Land *	\$11 524 772		\$11 524 772
Parc du Bois-de-Coulonge	1		1
Parc de l'Amérique Française	1		1
Parc du Cavalier du Moulin	1		1
Data processing equipment	381 266	\$344 435	36 831
Office furniture and equipment	351 089	260 838	90 251
Leasehold improvements	127 704	87 238	40 466
Facilities development	4 763 345	4 208 975	554 370
Current development	5 662 424		5 662 424
	22 810 603	4 901 486	17 909 117
Cultural property			
Domaine de Maizerets	6 545 250		6 545 250
Domaine Cataraqui	238 821		238 821
	6 784 071		6 784 071
	\$29 594 674	\$4 901 486	\$24 693 188
			\$16 491 109

* During the fiscal year, the Commission acquired Parc du Cavalier du Moulin from the Société immobilière du Québec for a nominal value of \$1.

10. BANK BORROWING

The Commission has an unused bank borrowing of \$500 000 underwritten by the Gouvernement du Québec, renewable on August 31, 2006 and bearing interest at the prime rate. At March 31, 2006, the interest rate was de 5.5%.

11. SUPPLIERS AND OTHER CREDITORS

	2006	2005
Suppliers – current operations	\$1 889 109	\$6 535 931
Suppliers – Fund to develop and enhance the capital	79 672	185 014
Salaries and fringe benefits	21 387	46 497
Vacation time payable (Note 19)	208 664	190 858
Sick leave payable (Note 19)	25 452	25 676
Interest payable on long-term debt	434 402	466 445
	\$2 658 686	\$7 450 421

At March 31, 2006, \$102 726 represented amounts payable to related parties (2005: \$102 626). Also at March 31, 2006, De plus, \$1 270 049 included under suppliers was used to acquire fixed assets (2005: \$6 870).

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

Deferred Gouvernement du Québec subsidies presented in the current operating fund correspond to subsidies received in the fiscal years under consideration and destined to cover the subsequent fiscal year's expenses. The changes in the deferred subsidies are as follows:

	2006	2005
Opening balance	\$1 307 495	\$2 673 963
Subsidies received in the fiscal year	701 854	743 797
	2 009 349	3 417 760
Subsidies recorded as proceeds of the fiscal year	(1 776 969)	(2 110 265)
Closing balance	<u>\$232 380</u>	<u>\$1 307 495</u>

13. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the current operating fund correspond to contributions received in the fiscal years under consideration and destined to cover the expenses of future fiscal years. The changes in the deferred contributions are as follows:

	2006	2005
Opening balance	\$241 349	\$1 217 627
Contributions received during the fiscal year	962 608	181 807
	1 203 957	1 399 434
Contributions recorded as proceeds of fiscal year	(115 824)	(1 158 085)
	1 088 133	241 349
Contributions destined to cover expenses for the next fiscal year	(1 032 668)	(165 216)
Closing balance	<u>\$55 465</u>	<u>\$76 133</u>

At March 31, 2006, \$127 094 represented deferred contributions from bodies under common control (2005: \$64 158).

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. LONG-TERM DEBT

	Effective rate	2006	2005
Borrowings on note from the Financing Fund of the Gouvernement du Québec, 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 %	\$3 766 365	\$4 108 761
6.06% repayable in half-yearly instalments of \$345 842 on the principal of the borrowing, maturing on December 1, 2010 *	6.21	3 458 420	4 150 104
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	2 273 333	2 480 000
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	1 764 000	1 848 000
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	3 702 779	3 927 190
4.10%, repayable in half-yearly instalments of \$52 447 on the principal of the borrowing and a final instalment of \$1 678 312 on March 5, 2007 *	4.24	1 730 760	1 835 654
5.64%, repayable in half-yearly instalments of \$318 623 on the principal of the borrowing, maturing on January 16, 2018	5.78	7 646 957	8 284 204
3.86%, repayable in half-yearly instalments of \$234 071 the first year and then \$208 750 on the principal of the borrowing, maturing on March 31, 2026 * **	3.86	8 400 642	
Borrowings guaranteed by the Ministère de la Culture et des Communications			
5.25%, repayable in monthly instalments of \$9 030, principal and interest maturing on April 5, 2010 *	5.25	781 501	846 306
6.16%, repayable in monthly instalments of \$1 198, principal and interest maturing on December 12, 2006 *	6.16	10 481	23 759
		33 535 238	27 503 978
Portion maturing in the next fiscal year		(4 464 788)	(2 369 356)
		<u>\$29 070 450</u>	<u>\$25 134 622</u>

Capital payments for the next five fiscal years are as follows:

2007	\$4 464 788
2008	2 676 590
2009	2 680 499
2010	2 684 619
2011	7 724 818

* 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.

** On April 13, 2006, the Commission signed a new loan agreement, which totalled \$16 633 064 and included refinancing of this debt. The entire loan bears interest at a rate of 4.803%, is repayable in semi-annual instalments of \$415 827 and matures on March 31, 2006.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

15. DEFERRED CONTRIBUTIONS RELATED TO FIXED ASSETS

Deferred contributions related to fixed assets include Gouvernement du Québec subsidies for the Samuel-De-Champlain promenade project and correspond to development work currently being done. The contribution breaks down as follows:

	2006	2005
Opening balance	\$1 019 571	\$1 019 571
Subsidy received during the fiscal year	4 642 853	
Closing balance	<u>\$5 662 424</u>	<u>\$1 019 571</u>

16. 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:

	2006	2005
Land	\$11 524 770	\$7 943 596
Cultural property	6 545 251	6 545 251
	<u>\$18 070 021</u>	<u>\$14 488 847</u>

17. INTER-FUND TRANSFER

The amount \$818 438 represents surplus amounts received by the Commission which, according to its incorporating legislation, must be paid into the Fund to develop and enhance the capital.

18. COMMITMENTS

The Commission is committed to financially supporting various projects aimed at enhancing and promoting the capital and promoting cultural activities and events that give prominence to the capital. As at March 31, 2006, the Commission had commitments totalling \$6 988 942 (2005: \$829 672).

19. FUTURE FRINGE BENEFITS

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

The Commission's liability towards these Government plans is restricted to its contributions as an employer. Its contributions charged to the year-end statement amount to \$91 298 (2005: \$69 842).

Provision for vacation time and sick leave

	Sick leave	2006 Vacation time	Total	2005 Total
Opening balance	\$25 676	\$190 858	\$216 534	\$246 048
Charge for the fiscal year	34 382	199 287	233 669	214 306
Benefits paid throughout the fiscal year	<u>(34 606)</u>	<u>(181 481)</u>	<u>(216 087)</u>	<u>(243 820)</u>
Closing balance	<u>\$25 452</u>	<u>\$208 664</u>	<u>\$234 116</u>	<u>\$216 534</u>

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

20. FINANCIAL INSTRUMENTS

The book value of short-term assets and liabilities and cash on hand reserved for the acquisition of fixed assets corresponds to a reasonable estimate of their fair value.

The fair value of Gouvernement du Québec subsidies receivable and the fair value of the long-term debt are determined by capitalizing future cash flows at capitalization rates representing the rates the Commission could have as at the date of the financial statement for borrowings with similar conditions and maturity dates.

The fair market value of the contributions receivable and deferred over the long term and the deposit on the acquisition of fixed assets is established by capitalizing future cash flows at a capitalization rate representing the rates the Commission might use on the date of the financial statement for investments with similar conditions and maturity dates.

The following table shows the book value and fair value of the other financial instruments.

	2006		2005	
	Book value	Fair value	Book value	Fair value
Gouvernement du Québec subsidies receivable	\$33 986 043	\$35 486 664	\$27 981 207	\$30 278 402
Contributions receivable	1 151 908	1 148 333	236 348	231 598
Deposit on acquisition of fixed assets	2 089 010	2 013 504		
Deferred contributions	1 088 133	1 082 861	241 349	234 629
Long-term debt				
Borrowings from the Financing Fund	32 743 256	34 260 374	26 633 913	28 842 356
Borrowing guaranteed by the Ministère	791 982	778 442	870 065	963 475

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it.

The Commission did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements. Fixed asset purchases and sales between related parties are recorded at the assignor's book value and disclosed in Note 9.

22. COMPARATIVE FIGURES

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

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Commission de la capitale nationale du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Jacques Langlois
President and Chief Executive Officer

Hélène Turcotte
Director, Administrative Affairs

Québec, June 9, 2006

COMMISSION DE LA CAPITALE 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, 2006, the income statement, statement of change in fund balances and cash flow statement for the year then ended. These financial statements are the responsibility of Commission management. It is my responsibility to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 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, June 9, 2006

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

R.S.Q., c. R-20

GENERAL FUND

INCOME AND CHANGE IN EQUITY STATEMENT

for the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
REVENUES		
Levies	56 535	54 425
Service fees	6 812	6 958
Optional participation	739	665
Penalties	1 621	1 035
Transfer of unidentified or unclaimed compensation and claims	160	72
Investment income	1 239	874
Other	420	936
	<u>67 526</u>	<u>64 965</u>
EXPENSES		
Employee remuneration and personnel management	66 095	62 925
Administrative expenses	15 108	13 780
Office space	3 197	3 151
Amortization of fixed assets	2 467	2 287
Amortization of intangible assets	947	542
Advertising and public relations	682	604
Contribution to the Construction Industry Commissioner's Fund	1 005	1 000
Other expenses	173	366
Interest on capital-lease contract	11	
	<u>89 685</u>	<u>84 655</u>
Expenses before the following items		
Transfer from supplemental pension and insurance plans	(17 756)	(15 886)
Transfer from the Training Fund and the Training Plan	(1 590)	(1 453)
Transfer of interest from the Holiday and Vacation Pay Fund	(3 478)	(3 747)
Gouvernement du Québec subsidies to help fight black market labour	(10 336)	(9 543)
	<u>56 525</u>	<u>54 026</u>
SURPLUS REVENUES OVER EXPENSES	11 001	10 939
EQUITY, BEGINNING OF YEAR (DEFICIT)	<u>6 542</u>	<u>(4 397)</u>
EQUITY, END OF YEAR (DEFICIT)	<u>17 543</u>	<u>6 542</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, 2005
(in thousands of dollars)

	2005	2004
Current assets		
Cash on hand		682
Investment and accrued revenue (Note 6.1)	54 345	62 038
Levies receivable	5 885	5 091
Accounts receivable	1 532	2 568
Gouvernement du Québec subsidies receivable		3 550
Prepaid expenses	769	484
	<u>62 531</u>	<u>74 413</u>
Fixed assets (Note 7.1)	10 539	10 907
Intangible assets (Note 7.1)	3 157	1 766
	<u>76 227</u>	<u>87 086</u>
LIABILITIES		
Current liabilities		
Bank overdraft	181	
Bank borrowing (Note 8)		20 250
Accounts payable and accrued expenses	10 859	12 445
Deferred revenue	267	354
Deferred Gouvernement du Québec subsidies	2 450	7 480
Obligation resulting from a capital-lease contract (Note 9)	244	239
	<u>14 001</u>	<u>40 768</u>
Obligation resulting from a capital-lease contract (Note 9)		244
Liability for benefits accrued under future fringe benefits (Note 15)	44 683	39 532
	<u>58 684</u>	<u>80 544</u>
EQUITY	17 543	6 542
	<u>76 227</u>	<u>87 086</u>
COMMITMENTS (Note 13)		
CONTINGENCIES (Note 14)		
RECLASSEMENT (Note 20)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard
Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND****CASH FLOW**

for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Surplus revenue over expenditure	11 001	10 939
Adjustments for:		
Amortization of fixed assets	2 467	2 287
Amortization of intangible assets	947	542
Loss on disposal of fixed assets	101	115
Increase in benefits accrued under future fringe benefits	5 151	4 066
	<u>19 667</u>	<u>17 949</u>
Net change in non-cash elements of the Working Capital Fund (Note 10.1)	<u>(3 196)</u>	<u>(267)</u>
Cash flows related to operating activities	<u>16 471</u>	<u>17 682</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(4 448)	(6 560)
Acquisition of fixed assets	(2 218)	(2 168)
Acquisition of intangible assets	(2 338)	(1 512)
Proceeds from disposal of fixed assets	18	1
Cash flows related to investment activities	<u>(8 986)</u>	<u>(10 239)</u>
FINANCING ACTIVITIES		
Repayment of the obligation resulting from a capital-lease contract	<u>(239)</u>	<u>(249)</u>
Cash flows related to financing activities	<u>(239)</u>	<u>(249)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7 246	7 194
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>16 091</u>	<u>8 897</u>
CASH AND CASH EQUIVALENTS AT THE END (Note 10.1)	<u><u>23 337</u></u>	<u><u>16 091</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FUND****NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2005

(in thousands of dollars)

	2005				2004
	General account	Comple- mentary account	Pensioners' account	Total	Total
ASSETS					
Investments					
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 6.2)	3 443 531	1 940 692	4 360 305	9 744 528	8 405 434
Investments and accrued interest (Note 6.1)	42 049	(10 042)	75 702	107 709	121 596
	<u>3 485 580</u>	<u>1 930 650</u>	<u>4 436 007</u>	<u>9 852 237</u>	<u>8 527 030</u>
Accounts receivable					
Employee contributions receivable	185	19 565		19 750	18 600
Employer contributions receivable	29 427	10 616		40 043	29 248
General account transfer receivable			14 995		
Complementary account transfer receivable			3 938		
	<u>3 515 192</u>	<u>1 960 831</u>	<u>4 454 940</u>	<u>9 912 030</u>	<u>8 574 878</u>
LIABILITIES					
Bank overdraft	482		(5)	477	224
Accounts payable	512	500		1 012	469
Contributions repayable after retirement		23 707		23 707	39 493
Pensions and lump-sum benefits payable	5 312	2 030	1 354	8 696	11 984
Transfers to the pensioners' accounts	14 995	3 938			
	<u>21 301</u>	<u>30 175</u>	<u>1 349</u>	<u>33 892</u>	<u>52 170</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 11)	<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>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

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, 2005

(in thousands of dollars)

	2005				2004
	General account	Comple- mentary account	Pensioners' account	Total	Total
INCREASE IN ASSETS					
Employee contributions (Note 11.3)	1 255	215 235		216 490	219 048
Employer contributions (Note 11.3)	311 501	116 756		428 257	332 261
Contributions after retirement		23 614		23 614	28 788
Earnings of funds entrusted to the Caisse de dépôt et placement du Québec	129 744	68 175	176 296	374 215	302 118
Other interest income	956	665	828	2 449	2 311
Transfer from the general account			217 787		
Transfer from the complementary account			71 566		
Change in the fair value of investments	288 906	157 565	402 425	848 896	590 316
	<u>732 362</u>	<u>582 010</u>	<u>868 902</u>	<u>1 893 921</u>	<u>1 474 842</u>
DECREASE IN ASSETS					
Lump-sum benefits and contribution refunds	27 796	8 770	460 483	497 049	477 235
Repayment of hours after retirement		23 562		23 562	39 335
Charge of administrative expenses by the General Fund	17 339	192		17 531	15 739
Transfers to the pensioners' accounts	217 787	71 566			
Administrative expenses	349			349	282
	<u>263 271</u>	<u>104 090</u>	<u>460 483</u>	<u>538 491</u>	<u>532 591</u>
INCREASE IN ASSETS	469 091	477 920	408 419	1 355 430	942 251
NET ASSETS AVAILABLE FOR BENEFITS – BEGINNING OF YEAR	<u>3 024 800</u>	<u>1 452 736</u>	<u>4 045 172</u>	<u>8 522 708</u>	<u>7 580 457</u>
NET ASSETS AVAILABLE FOR BENEFITS – END OF YEAR	<u><u>3 493 891</u></u>	<u><u>1 930 656</u></u>	<u><u>4 453 591</u></u>	<u><u>9 878 138</u></u>	<u><u>8 522 708</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND**
BALANCE SHEET
 as at December 31, 2005
 (in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Basic insurance plans fund</u>		<u>Supplemental insurance plans fund</u>		<u>Total</u>	
ASSETS						
Investments and accrued revenue (Note 6.1)	393 813	310 774	36 188	31 620	430 001	342 394
Employer contributions receivable	21 823	18 759	1 917	1 546	23 740	20 305
Assets related to derivative financial instruments (Note 16)	<u>341</u>	<u>(478)</u>	<u>37</u>	<u>(57)</u>	<u>378</u>	<u>(535)</u>
	<u>415 977</u>	<u>329 055</u>	<u>38 142</u>	<u>33 109</u>	<u>454 119</u>	<u>362 164</u>
LIABILITY						
Bank overdraft	2 608	2 274			2 608	2 274
Claims payable	566	441			566	441
Accounts payable	6 621	5 767	10	23	6 631	5 790
Contributions collected in advance for eventual coverage	103 266	84 358	6 900	5 933	110 166	90 291
Deferred voluntary employee contributions	8 606	7 732			8 606	7 732
Deferred employer contributions	184 943	167 483	9 859	9 116	194 802	176 599
Actuarial liabilities (Note 12)	<u>66 303</u>	<u>64 682</u>			<u>66 303</u>	<u>64 682</u>
	<u>372 913</u>	<u>332 737</u>	<u>16 769</u>	<u>15 072</u>	<u>389 682</u>	<u>347 809</u>
EQUITY (Notes 4, 5, 17 and 18)						
	<u>43 064</u>	<u>(3 682)</u>	<u>21 373</u>	<u>18 037</u>	<u>64 437</u>	<u>14 355</u>
	<u>415 977</u>	<u>329 055</u>	<u>38 142</u>	<u>33 109</u>	<u>454 119</u>	<u>362 164</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND****CHANGES IN EQUITY**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Basic insurance plans fund</u>		<u>Supplemental insurance plans fund</u>		<u>Total</u>	
INCREASE IN ASSETS						
Employer contributions	197 735	147 006	9 768	9 196	207 503	156 202
Optional employee contributions	14 878	12 403			14 878	12 403
Decrease in actuarial liabilities		541				541
Premium received from supplemental insurance plans	9 026	9 071				
Investment income	25 923	24 813	2 955	3 331	28 878	28 144
Value added of assets linked to derivative financial instruments	819	(478)	94	(57)	913	(535)
	<u>248 381</u>	<u>193 356</u>	<u>12 817</u>	<u>12 470</u>	<u>252 172</u>	<u>196 755</u>
DECREASE IN ASSETS						
Insurance premiums paid to basic plans			9 026	9 071		
Expenses charged by the General Fund			225	147	225	147
Claims	192 294	169 360			192 294	169 360
Tax on capital	4 948	4 314	230	226	5 178	4 540
Management fees for claims and premiums	2 772	2 869			2 772	2 869
Increase in actuarial liabilities	1 621				1 621	
	<u>201 635</u>	<u>176 543</u>	<u>9 481</u>	<u>9 444</u>	<u>202 090</u>	<u>176 916</u>
INCREASE IN EQUITY	<u>46 746</u>	<u>16 813</u>	<u>3 336</u>	<u>3 026</u>	<u>50 082</u>	<u>19 839</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

INSURANCE PLANS FUND

CHANGES IN EQUITY (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Basic insurance plans fund</u>		<u>Supplemental insurance plans fund</u>		<u>Total</u>	
EQUITY, BEGINNING OF YEAR						
Previously established equity	(4 852)	(8 582)	22 846	18 587	17 994	10 005
Adjustments:						
Change in accounting policy (Note 4)	(1 499)	(13 800)	(2 140)	(1 689)	(3 639)	(15 489)
Employer contributions (Note 5.1.1)	1 034	734	(1 034)	(734)		
Insurance premiums paid to the basic plan (Note 5.1.2)	1 489	1 097	(1 489)	(1 097)		
Investment income (Note 5.1.1)	<u>146</u>	<u>56</u>	<u>(146)</u>	<u>(56)</u>		
Adjusted balance	<u>(3 682)</u>	<u>(20 495)</u>	<u>18 037</u>	<u>15 011</u>	<u>14 355</u>	<u>(5 484)</u>
INCREASE IN EQUITY	<u>46 746</u>	<u>16 813</u>	<u>3 336</u>	<u>3 026</u>	<u>50 082</u>	<u>19 839</u>
EQUITY (DEFICIT), END 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>

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, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
REVENUES		
Employer contributions	19 913	19 321
Investment income	11 647	13 628
Value added of assets linked to derivative financial instruments	<u>432</u>	<u>(268)</u>
	 31 992	 32 681
EXPENSES		
Training activities	12 233	9 221
Incentives paid to clients	6 224	4 483
Amortization of reusable training materials	329	325
Contribution to C.G.U.F.F. ¹	1 546	1 980
Transfer to General Fund	<u>1 259</u>	<u>1 151</u>
	 21 591	 17 160
EXCESS REVENUES OVER EXPENSES	<u>10 401</u>	<u>15 521</u>
EQUITY, BEGINNING OF YEAR		
Previously established balance	133 564	118 080
Adjustment- Reusable training materials (Note 5.2)	<u>63</u>	<u>26</u>
Adjusted balance	<u>133 627</u>	<u>118 106</u>
EQUITY, END OF YEAR	<u><u>144 028</u></u>	<u><u>133 627</u></u>

RECLASSIFICATION (Note 20)

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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Investments and accrued revenue (Note 6.1)	140 045	132 579
Employer contributions receivable	1 835	1 580
Prepaid expenses	2 060	1 392
Assets related to derivative financial instruments (Note 16)	<u>164</u>	<u>(268)</u>
	144 104	135 283
Reusable training materials (Note 7.2)	<u>1 197</u>	<u>1 390</u>
	<u><u>145 301</u></u>	<u><u>136 673</u></u>
LIABILITIES		
Current liabilities		
Bank overdraft	126	41
Accounts payable	30	16
Training activities payable	<u>1 117</u>	<u>2 989</u>
	1 273	3 046
EQUITY (Note 5.2)	<u>144 028</u>	<u>133 627</u>
	<u><u>145 301</u></u>	<u><u>136 673</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard
Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS****CASH FLOW**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	10 401	15 521
Adjustments for:		
Amortization of reusable training materials	<u>329</u>	<u>325</u>
	10 730	15 846
Net change in non-cash elements of the Working Capital Fund (Note 10.2)	<u>(3 213)</u>	<u>(437)</u>
Cash flows related to operating activities	 7 517	 15 409
INVESTMENT ACTIVITIES		
Acquisition of reusable training materials	<u>(136)</u>	<u>(490)</u>
Cash flows related to investment activities	 (136)	 (490)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>7 381</u>	<u>14 919</u>
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR		
Previously adjusted balance	132 538	117 562
Adjustment – Reusable training materials (Note 5.2)	<u>57</u>	<u>57</u>
Adjusted balance	<u>132 538</u>	<u>117 619</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10.2)	<u><u>139 919</u></u>	<u><u>132 538</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR****INCOME AND CHANGES IN EQUITY**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
REVENUES		
Employer contributions	5 256	5 045
Investment income	2 084	2 159
Value added of assets linked to derivative financial instruments	<u>77</u>	<u>(47)</u>
	7 417	7 157
EXPENSES		
Training activities	2 240	1 674
Incentives paid to clients	1 664	1 178
Incentives paid to referred clients	174	201
Amortization of reusable training materials	40	37
Contribution to the Training Plan committee	264	591
Transfers to General Fund	<u>331</u>	<u>302</u>
	4 713	3 983
SURPLUS REVENUES OVER EXPENSES	<u>2 704</u>	<u>3 174</u>
EQUITY, BEGINNING OF YEAR		
Previously adjusted balance	23 319	20 108
Adjustment – Reusable training materials (Note 5.2)	<u>(63)</u>	<u>(26)</u>
Adjusted balance	<u>23 256</u>	<u>20 082</u>
EQUITY, END OF YEAR	<u><u>25 960</u></u>	<u><u>23 256</u></u>

RECLASSIFICATION (Note 20)

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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Investments and accrued revenue (Note 6.1)	25 174	22 979
Employer contributions receivable	346	330
Prepaid expenses	774	
Assets related to derivative financial instruments (Note 16)	<u>30</u>	<u>(47)</u>
	26 324	23 262
Reusable training materials (Note 7.2)	<u>15</u>	<u>29</u>
	<u>26 339</u>	<u>23 291</u>
LIABILITIES		
Current liabilities		
Accounts payable	6	3
Training activities payable	<u>373</u>	<u>32</u>
	379	35
EQUITY (Note 5.2)	<u>25 960</u>	<u>23 256</u>
	<u>26 339</u>	<u>23 291</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard
Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR****CASH FLOW**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Excess revenues over expenses	2 704	3 174
Adjustments for:		
Amortization of reusable training materials	<u>40</u>	<u>37</u>
	2 744	3 211
Net change in non-cash elements of the Working Capital Fund (Note 10.3)	<u>(523)</u>	<u>36</u>
Cash flows related to operating activities	 2 221	 3 247
INVESTMENT ACTIVITIES		
Acquisition of reusable training materials	<u>(26)</u>	<u>(35)</u>
Cash flows related to investment activities	 (26)	 (35)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>2 195</u>	<u>3 212</u>
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR		
Previously adjusted balance	22 979	19 824
Adjustment – Reusable training materials (Note 5.2)	<u> </u>	<u>(57)</u>
Adjusted balance	<u>22 979</u>	<u>19 767</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10.3)	<u><u>25 174</u></u>	<u><u>22 979</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	192 202	180 239
Vacation pay receivable	33 037	27 938
Assets related to derivative financial instruments (Note 16)	<u>69</u>	<u>(121)</u>
	<u>225 308</u>	<u>208 056</u>
LIABILITIES		
Bank overdraft	2 382	1 734
Accounts payable	818	447
Vacation pay, payable to employees	217 722	201 908
Investment income on employee compensation payable	<u>4 386</u>	<u>3 967</u>
	<u>225 308</u>	<u>208 056</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND**

CHANGES IN ASSETS
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Compensation collected for annual vacation time	384 660	365 442
Investment income	10 051	11 129
Increase in bank overdraft and accounts payable	1 019	(152)
Value added linked to derivative financial instruments	<u>190</u>	<u>(121)</u>
	<u>395 920</u>	<u>376 298</u>
DECREASE IN ASSETS		
Payments to employees		
Compensation for annual vacation time	368 766	345 858
Investment income on compensation	6 336	5 786
Transfer to General Fund		
Interest income	3 478	3 747
Unidentified or unclaimed compensation for annual vacation time	<u>88</u>	<u>101</u>
	<u>378 668</u>	<u>355 492</u>
INCREASE IN ASSETS	17 252	20 806
ASSETS, BEGINNING OF YEAR	<u>208 056</u>	<u>187 250</u>
ASSETS, END OF YEAR	<u>225 308</u>	<u>208 056</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	1 033	1 161
Claims from employers receivable	<u>1 365</u>	<u>1 068</u>
	<u>2 398</u>	<u>2 229</u>
LIABILITIES		
Bank overdraft	274	361
Accounts payable	34	31
Claims payable to employees	<u>2 090</u>	<u>1 837</u>
	<u>2 398</u>	<u>2 229</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND**

STATEMENT OF CHANGES IN ASSETS
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Claims collected from employers	2 896	1 248
Investment income	<u>27</u>	<u>26</u>
	<u>2 923</u>	<u>1 274</u>
DECREASE IN ASSETS		
Claims paid to employees	2 598	2 807
Decrease in bank overdraft and accounts payable	84	(179)
Transfer to General Fund – Unidentified employee claims	<u>72</u>	<u>(29)</u>
	<u>2 754</u>	<u>2 599</u>
INCREASE IN ASSETS (DECREASE)	169	(1 325)
ASSETS, BEGINNING OF YEAR	<u>2 229</u>	<u>3 554</u>
ASSETS, END OF YEAR	<u><u>2 398</u></u>	<u><u>2 229</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**EMPLOYER CONTRIBUTIONS FUND****ASSETS AND LIABILITIES**

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	1 403	870
Employer contributions receivable	523	476
Advances on contributions	<u>130</u>	<u>130</u>
	<u>2 056</u>	<u>1 476</u>
LIABILITIES		
Accounts payable	7	4
Employer contributions refundable	<u>2 049</u>	<u>1 472</u>
	<u>2 056</u>	<u>1 476</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

CHANGES IN ASSETS

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employer contributions	9 948	9 708
Investment income	20	24
Increase in accounts receivable	<u>3</u>	<u>(3)</u>
	9 971	9 729
DECREASE IN ASSETS		
Contribution refunds	9 371	10 360
Transfer to General Fund – investment income	<u>20</u>	<u>24</u>
	<u>9 391</u>	<u>10 384</u>
INCREASE OF ASSETS (DECREASE)	580	(655)
ASSETS, BEGINNING OF YEAR	<u>1 476</u>	<u>2 131</u>
ASSETS, END OF YEAR	<u>2 056</u>	<u>1 476</u>
RECLASSIFICATION (Note 20)		

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**UNION ASSESSMENT FUND****ASSETS AND LIABILITIES**

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	5 223	4 322
Employee contributions receivable	4 868	4 231
Advances on contributions	<u>1 617</u>	<u>1 599</u>
	<u><u>11 708</u></u>	<u><u>10 152</u></u>
LIABILITIES		
Bank overdraft	85	1 060
Accounts payable	79	43
Assessments to be remitted	<u>11 544</u>	<u>9 049</u>
	<u><u>11 708</u></u>	<u><u>10 152</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**UNION ASSESSMENT FUND**

CHANGES IN ASSETS
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Assessments collected	56 816	53 840
Increase in advances on contributions	18	93
Investment income	<u>112</u>	<u>93</u>
	<u>56 946</u>	<u>54 026</u>
DECREASE IN ASSETS		
Assessments remitted	54 339	55 080
Decrease in bank overdraft and accounts payable	939	(594)
Transfer to General Fund – investment income	<u>112</u>	<u>93</u>
	<u>55 390</u>	<u>54 579</u>
INCREASE IN ASSETS (DECREASE)	1 556	(553)
ASSETS, BEGINNING OF YEAR	<u>10 152</u>	<u>10 705</u>
ASSETS, END OF YEAR	<u><u>11 708</u></u>	<u><u>10 152</u></u>

RECLASSIFICATION (Note 20)

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, 2005
 (in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	83	63
Employer contributions receivable	<u>136</u>	<u>142</u>
	<u>219</u>	<u>205</u>
LIABILITY		
Employer contributions payable	<u>219</u>	<u>205</u>
	<u>219</u>	<u>205</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

CHANGES IN ASSETS
 for the year ended December 31, 2005
 (in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employer contributions	921	880
Investment income	<u>3</u>	<u></u>
	<u>924</u>	<u>880</u>
DECREASE IN ASSETS		
Payment of contributions	<u>910</u>	<u>881</u>
	<u>910</u>	<u>881</u>
INCREASE IN ASSETS (DECREASE)	14	(1)
ASSETS, BEGINNING OF YEAR	<u>205</u>	<u>206</u>
ASSETS, END OF YEAR	<u>219</u>	<u>205</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****ASSETS AND LIABILITIES**

as at December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	56	
Employee contributions receivable	<u>294</u>	
	<u>350</u>	
LIABILITIES		
Employees contributions payable	<u>350</u>	
	<u>350</u>	

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard
 Robert Brown

CHANGES IN ASSETS
 for the year ended December 31, 2005
 (in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employee contributions	<u>1 365</u>	
	<u>1 365</u>	
DECREASE IN ASSETS		
Contribution remittances	<u>1 015</u>	
	<u>1 015</u>	
INCREASE IN ASSETS	350	
ASSETS, BEGINNING OF YEAR		
ASSETS, END OF YEAR	<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, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	5 814	5 388
Employer contributions receivable	302	262
Accounts receivable	35	(2)
Recovery of compensation receivable	<u>1 550</u>	<u>946</u>
	<u><u>7 701</u></u>	<u><u>6 594</u></u>
LIABILITIES		
Bank overdraft	20	7
Compensation payable to employees	<u>1 507</u>	<u>1 115</u>
	1 527	1 122
EQUITY	<u>6 174</u>	<u>5 472</u>
	<u><u>7 701</u></u>	<u><u>6 594</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard
Robert Brown

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND****CHANGES IN EQUITY**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INCREASE IN ASSETS		
Employer contributions	2 341	2 259
Compensation recovered	1 185	
Penalties	159	178
Investment income	<u>153</u>	<u>111</u>
	<u>3 838</u>	<u>2 548</u>
DECREASE IN ASSETS		
Compensation paid to employees	2 983	1 396
Transfer to General Fund – investment income	153	111
Provision for recovery of compensation		<u>332</u>
	<u>3 136</u>	<u>1 839</u>
INCREASE IN EQUITY	702	709
EQUITY, BEGINNING OF YEAR	<u>5 472</u>	<u>4 763</u>
EQUITY, END OF YEAR	<u><u>6 174</u></u>	<u><u>5 472</u></u>

RECLASSIFICATION (Note 20)

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**ELIGIBILITY FUND****BALANCE SHEET**
as at December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Investments and accrued revenue (Note 6.1)	3 188	2 844
Employer contributions receivable	<u>84</u>	<u>75</u>
	<u>3 272</u>	<u>2 919</u>
LIABILITIES		
Employee compensation payable	<u>16</u>	<u>16</u>
	16	16
EQUITY (Note 19)	<u>3 256</u>	<u>2 903</u>
	<u><u>3 272</u></u>	<u><u>2 919</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard
Robert Brown

CHANGES IN EQUITY
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
DECREASE IN EQUITY		
Employer contributions	525	527
Investment income	<u>72</u>	<u>56</u>
	597	583
DECREASE IN EQUITY		
Assessments remitted to employees	<u>244</u>	<u>203</u>
INCREASE IN EQUITY	353	380
EQUITY, BEGINNING OF YEAR	<u>2 903</u>	<u>2 523</u>
EQUITY, END OF YEAR	<u><u>3 256</u></u>	<u><u>2 903</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 2005

(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). It is responsible for applying collective agreements and fringe-benefit plans and managing vocational training and manpower in the construction industry. For this purpose, 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 interentreprise pension plan developed by the Committee for social benefits in the construction industry and, since January 1, 1976, replacing 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-benefits 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 FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(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 good for the three years following the evaluation's effective date. The approach advocated to offset the effects of fluctuating asset yields and adjustments in economic and demographic assumptions is the use of a reserve for economic fluctuations for the general account and a reserve for indexations futures for the pensioners' accounts.

The objectives of the actuarial evaluation are: to recommend, if applicable, an adjustment in the employer contribution between the employer contribution for past service and that for current service and recommend, if applicable, an adjustment, to basic pensions accumulated and pensions being paid on the evaluation's effective date. This evaluation is based on assumptions determined by outside actuaries by the CCQ (see Notes 11.1 and 11.2).

RETIREMENT BENEFITS

Contributors are entitled to benefits without any actuarial reduction at the age of 65, or at the age of 60 if the sum of their age and hours worked divided by 1400 is equal to or higher than 70, or at the age of 55 if the sum of their age and hours worked divided by 1400 is equal to or higher than 80 and the sum of their age and years of service is equal to or higher than 80.

In the case of contributors who are 55 years of age and the sum of their age and hours worked divided by 1 400 is equal to or higher than 80 but the sum of their age and years of service is less than 80, only the portion of the pension payable for hours worked after 1991 is reduced by 1/4% per month for the months between the month closest to that where the sum of their age and years of service is 80 if they continued to accumulate years of service and the month they turn 60.

Contributors are entitled to an early retirement pension with actuarial reduction at the age of 55, or at the age of 50 if the sum of their age and hours worked divided by 1 400 is equal to or greater than 60.

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 FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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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 who is past the 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 application of this statute 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 the O.C. 415-2005 which removes the Plan from certain provisions of the said statute or to postpone its implementation. However, certain elements regarding plan financing and solvability continue to be discussed.

The actuarial evaluation prepared for the Plan at December 31, 2005 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 the benefits and compensation provided for under insurance plans and to pay inherent expenses.

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NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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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 professions 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 such 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 to bring on-line, harmoniously implement and disseminate applicable work conditions, to gauge their relevance and effectiveness and to undertake any other approach and analysis to promote closer, more concerted relations between the parties in accordance with the collective agreement governing the residential sector of the construction industry.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(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 in order 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 on 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

3.3 Reporting on revenues and transfers

GENERAL FUND

Revenues and deductions

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 FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.3 Revenues and transfers recording (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 set 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 are transferred to the General Fund to the Fund's pay administrative expenses and collection fees of up to 25% of the interest generated by the Fund plus a ..lump sum amount 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 very 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 FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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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 6.1, 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 to manage the exchange risk of investments held in foreign currencies. The derivative financial instruments comprise foreign exchange forward contracts. 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

Fixed assets

Fixed 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 FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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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 t-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 using 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.

4. CHANGE IN ACCOUNTING POLICIES

Insurance plans

In the insurance plans balance sheet, the CCQ previously presented provisions for eventual profits corresponding to the actualized value of banks of time accumulated by employees. Beginning this fiscal year, prepaid contributions for eventual coverage, representing the book value of reserves used to maintain employees' insurability, are recorded as deferred revenues and transferred to revenues for the fiscal year corresponding to the insurance periods for which they are used. This change, applied retroactively, increased or decreased the following items of the financial statements:

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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4. CHANGE IN ACCOUNTING POLICIES (cont'd)**Insurance plans (cont'd)**

	2005	2004	2005	2004
	Basic insurance plans fund		Supplemental insurance plans fund	
Balance sheet				
Prepaid contributions for eventual coverage	27 218	22 150	3 082	2 667
Deferred employer contributions	(20 309)	(20 651)	(686)	(527)
Equity	(6 909)	(1 499)	(2 396)	(2 140)
Changes in equity				
Employer contributions	(19 251)	(12 342)	(807)	(906)
Increase in equity ¹	(5 410)	12 301	(256)	(451)

1 The difference between the effect of the change in accounting policies on the item "Increase in equity" and its effect on the item "Employer contributions" corresponds to the item "Increase in provisions for eventual profits", which previously appeared in the "Change in equity" statement.

5. CORRECTION OF ERRORS**5.1 Insurance plans****5.1.1 Employer contributions**

Since 1996, supplemental employer contributions encashed for the voluntary maintenance of employee coverage, were not transferred from the supplemental plans of the basic plan. Corrections, applied retroactively, increased or decreased the following items of the financial statements:

	2005	2004	2005	2004
	Basic insurance plans fund		Supplemental insurance plans fund	
Balance sheet				
Investments and accrued revenue	1 640	1 180	(1 640)	(1 180)
Equity	1 640	1 180	(1 640)	(1 180)
Changes in equity				
Employer contributions	339	300	(339)	(300)
Investment income	121	90	(121)	(90)
Increase in equity	460	390	(460)	(390)

5.1.2 Insurance premiums paid into the basic plan

The actuarial liabilities presented in the basic plan's balance sheet, notably, provisions for benefits committed related to coverage offered by supplemental insurance plans. Consequently, the insurance premiums paid into the basic plan by the supplemental plans should have been adjusted to reflect the recording of these provisions. The corrections, applied retroactively, increased or decreased the following items of the financial statements:

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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5. CORRECTION OF ERRORS (cont'd)**5.1 Insurance plans (cont'd)****5.1.2 Insurance premiums paid into the basic plan (cont'd)**

	2005	2004	2005	2004
	Basic insurance plans fund		Supplemental insurance plans fund	
Balance sheet				
Investments and accrued revenue	1 520	1 489	(1 520)	(1 489)
Equity	1 520	1 489	(1 520)	(1 489)
Changes in equity				
Premium received from supplemental insurance plan	31	392		
Insurance premiums paid into the basic plan			(31)	(392)
Increase in equity	31	392	(31)	(392)

**5.2 Training Plan Fund – Work Sectors
And Training Plan Fund – Residential Sector**

Since the creation of the Training Plan Fund – Residential Sector, reusable training materials were posted in their entirety to the assets of the Training Plan Fund – Work Sectors. These corrections, applied retroactively, increased or decreased the following items of the financial statements:

	2005	2004	2005	2004
	Training Fund		Training Plan	
Balance sheet				
Investments and accrued revenue	111	92	(111)	(92)
Reusable training materials	(8)	(29)	8	29
Equity	103	63	(103)	(63)
Results changes in equity				
Amortization of reusable training materials	(40)	(37)	40	37
Surplus revenues over expenses	40	37	(40)	(37)

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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6. INVESTMENTS**6.1 Investments and accrued revenue**

GENERAL FUND, INSURANCE PLANS
AND TRUST FUNDS – AT COST

	2005		2004	
	Cost	Fair value	Cost	Fair value
Cash on hand	35 580	35 580	45 715	45 715
Term deposit ¹	226 975	226 975	197 275	197 275
Bonds ²	348 367	358 303	288 631	300 389
Shares ³	246 101	277 361	219 786	235 092
Broker's account ⁴	(2 680)	(2 680)		
Accrued interest	4 224	4 224	3 470	3 470
	<u>858 567</u>	<u>899 763</u>	<u>754 877</u>	<u>781 941</u>

1 Maturing no later than June 1, 2006 at interest rates varying from 3.14% to 3.59%.

2 The weighted average bond term is 5.56 years and the actual rate of return is 3.979%.

3 Includes the cost and fair value of US shares--\$75 430 592 and \$71 905 695 respectively--for fiscal 2005. This capital loss 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:

	2005		2004	
	Cost	Fair value	Cost	Fair value
General Fund	54 345	54 345	62 038	62 072
Basic insurance plans	393 813	416 929	310 774	324 853
Supplemental insurance plans	36 188	38 702	31 620	33 298
Training Plan Fund – Work Sectors	140 045	149 062	132 579	138 831
Training Plan Fund – Residential Sector	25 174	26 799	22 979	24 070
Holiday and Vacation Pay Fund	192 202	197 125	180 239	184 160
Back Pay Fund	1 033	1 033	1 161	1 162
Employer Contributions Fund	1 403	1 403	870	870
Union Assessment Fund	5 223	5 223	4 322	4 324
Residential Sector Contributions Fund	83	83	63	63
Union Training Contribution Fund	56	56		
Special Compensation Fund	5 814	5 815	5 388	5 391
Eligibility Fund	3 188	3 188	2 844	2 847
	<u>858 567</u>	<u>899 763</u>	<u>754 877</u>	<u>781 941</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
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6. INVESTMENTS (cont'd)**6.1 Investments and accrued revenue (cont'd)**

SUPPLEMENTAL PENSION PLAN – AT FAIR VALUE

	2005		2004	
	Cost	Fair value	Cost	Fair value
Cash on hand	12 796	12 796	21 884	21 884
Term deposit ¹	86 337	86 337	91 860	91 860
Bonds ²	8 221	8 236	7 624	7 623
Accrued interest	340	340	229	229
	<u>107 694</u>	<u>107 709</u>	<u>121 597</u>	<u>121 596</u>

1 Maturing no later than June 1, 2006 at interest rate varying from 3.14% to 3.59%.

2 The weighted average bond is 5.56 years and the actual rate of return is 3.979%.

These accrued investments and interest break down as follows in the different accounts:

	2005		2004	
	Cost	Fair value	Cost	Fair value
General account	42 043	42 049	46 371	46 371
Complementary account	(10 040)	(10 042)	17 677	17 676
Pensioners' account	75 691	75 702	57 549	57 549
	<u>107 694</u>	<u>107 709</u>	<u>121 597</u>	<u>121 596</u>

6.2 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 follows:

	2005	2004
General account		
Demand deposit		1
Participation deposits ¹	3 426 540	3 474 540
Accrued revenue	16 991	17 593
	<u>3 443 531</u>	<u>3 492 134</u>
Complementary account		
Demand deposit	70 013	10 001
Participation deposits ¹	1 859 673	1 452 174
Accrued revenue	11 006	7 777
	<u>1 940 692</u>	<u>1 469 952</u>
Amounts carried forward	<u>5 384 223</u>	<u>4 962 086</u>

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NOTES TO FINANCIAL STATEMENTS (cont'd)
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6. INVESTMENTS (cont'd)**6.2 Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value (cont'd)**

	2005	2004
Amounts brought forward	5 384 223	4 962 086
Pensioners' account		
Demand deposit (advances)	(5 001)	1
Participation deposits ¹	4 337 569	3 424 582
Accrued revenue	27 737	18 765
	4 360 305	3 443 348
	9 744 528	8 405 434

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.

7. LONG-TERM ASSETS**7.1 General Fund***Fixed assets*

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Land	672		672	672
Buildings	8 718	5 906	2 812	3 030
Building fit-up	2 718	1 411	1 307	1 205
Furniture and equipment	6 344	4 451	1 893	2 183
Data processing equipment	7 265	4 286	2 979	2 572
Leasehold improvements	1 391	955	436	659
	27 108	17 009	10 099	10 321
Computer equipment leased under a capital-lease contract	733	293	440	586
	27 841	17 302	10 539	10 907

Amortization of computer equipment leased under a capital-lease contract included in the item "Amortization of fixed assets" of the statement of results and changes in equity was \$146 551 in 2005 (\$145 704 in 2004).

Intangible assets

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Software	6 274	3 953	2 321	1 355
Computer systems development projects	836		836	411
	7 110	3 953	3 157	1 766

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NOTES TO FINANCIAL STATEMENTS (cont'd)
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7. LONG-TERM ASSETS (cont'd)**7.2 Training Plan Fund – Work Sectors
and Training Plan Fund – Residential Sector**

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Reusable training materials				
Training Fund	2 274	1 077	1 197	1 390
Training Plan	118	103	15	29

8. BANK BORROWING

The CCQ has a credit line with financial institutions that is renewable annually on July 1. At December 31, 2005, the maximum amount the CCQ could use was \$7 000 000. Amounts used bear interest at the prime rate. Moreover, in the bank overdraft related to one or more trust funds, substantial advances may be offered by the financial institution for a period not normally exceeding a few days and bearing interest at the prime rate.

9. OBLIGATION RESULTING FROM A CAPITAL-LEASE CONTRACT

	2005	2004
Obligation resulting from a capital-lease contract at 2.37% maturing in 2006	244	483
Instalments maturing within one year	244	239
		244

Minimum instalments payable on the obligation resulting from a capital-lease contract will be \$255 640 in the next fiscal year.

10. CASH FLOWS**10.1 General Fund**

	2005	2004
Change on non-cash elements of the Working Capital Fund		
Withdrawals receivable	(794)	(473)
Accounts receivable	1 036	(807)
Subsidy receivable from the Gouvernement du Québec	3 550	3 350
Prepaid expenses	(285)	(223)
Accounts payable and accruals	(1 586)	1 330
Deferred income	(87)	(51)
Deferred Gouvernement du Québec subsidy	(5 030)	(3 393)
	(3 196)	(267)

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NOTES TO FINANCIAL STATEMENTS (cont'd)
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10. CASH FLOWS (cont'd)**10.1 General Fund (cont'd)**

The cash and cash equivalents shown in the cash flow statement for the General Fund include the following amounts recorded in the balance sheet:

	2005	2004
Cash on hand		682
Bank overdraft	(181)	
Bank borrowing		(20 250)
Investments and accrued revenue ¹	23 518	35 659
	<u>23 337</u>	<u>16 091</u>

1 These investments and accrued revenue are those maturing within three months.

10.2 Training Plan Fund – Work Sectors

	2005	2004
Change on non-cash elements of the Working Capital Fund		
Employer contributions receivable	(255)	(284)
Prepaid expenses	(668)	(717)
Accounts payable	14	(5)
Training activities payable	(1 872)	301
Assets related to derivative financial instruments	(432)	268
	<u>(3 213)</u>	<u>(437)</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:

	2005	2004
Bank overdraft	(126)	(41)
Investment and accrued revenue ¹	140 045	132 579
	<u>139 919</u>	<u>132 538</u>

1 These investments and accrued revenue are those maturing within three months.

10.3 Training Plan Fund – Residential Sector

	2005	2004
Change on non-cash elements of the Working Capital Fund		
Employer contributions receivable	(16)	(40)
Prepaid expenses	(774)	
Accounts payable	3	(2)
Training activities payable	341	31
Assets related to derivative financial instruments	(77)	47
	<u>(523)</u>	<u>36</u>

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NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

10. CASH FLOWS (cont'd)**10.3 Training Plan Fund – Residential Sector (cont'd)**

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:

	2005	2004
Investment and accrued revenue ¹	25 174	22 979
	<u>25 174</u>	<u>22 979</u>

1 These investments and accrued revenue are those maturing within three months.

11. OBLIGATIONS RELATED TO BENEFITS**11.1 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, 2005. This value was adjusted by projection to December 31, 2005. 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 correspond to the actuarial value, on the date of evaluation, of the pension claims and other benefits payable based on the accumulated adjusted hours on this date. The complementary account is not concerned since this part of the plan involves defined contributions and liabilities of this account equal the assets.

According to this evaluation, the actuarial value of benefits at December 31, the main components of the change in actuarial values over the fiscal year and the value of the reserves determined in keeping with the Regulation respecting complementary social benefit plans in the construction industry, were as follows:

	2005	2004
General account	4 534 979	4 561 283
Pensioners' account	4 194 881	3 827 762
Actuarial value of accumulated benefits at fiscal year-end	8 729 860	8 389 045
Reserve for economic fluctuations in the general account	701 023	292 909
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	<u>9 512 911</u>	<u>8 681 954</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

11. OBLIGATIONS RELATED TO BENEFITS (cont'd)**11.1 Obligations of the Supplemental Pension Plan (cont'd)**

	2005	2004
Actuarial value of accrued benefits at the beginning of the fiscal year	8 389 045	7 281 448
Changes made to the Plan	(57 997)	656 145
Changes in actuarial assumptions	242 934	147 283
Interest cumulated on benefits	515 573	489 740
Accrued benefits		167 961
Benefits paid	(504 622)	(481 812)
Transfer from complementary account	64 978	38 149
Loss of experience	79 949	90 131
Actuarial value of accrued benefits at fiscal year-end	<u>8 729 860</u>	<u>8 389 045</u>

The assumptions used to determine the actuarial value of accrued benefits reflect long-term markets situation forecasts. The most significant long-term actuarial assumptions used for the evaluation are as follows:

<i>(as a percentage)</i>	2005	2004
Assets' medium-term yield	6.00%	6.25%
Assets' long-term yield	6.00	6.50

The interest rates used to calculate general account commitments are reduced by 0.25% before withdrawal to reflect administration expenses.

11.2 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 according to which the actuarial value of assets is determined on the basis of the difference between the real and hoped-for market values of investments for the past three years. The adjusted value of the assets is restricted to 107% of the market value since December 31, 2002.

Actuarial present value of assets:

	2005 ¹	2004 ¹
Fair value of the net asset available for payment of benefits		
General account	3 435 143	3 375 580
Pensioners' account	<u>4 286 625</u>	<u>3 387 231</u>
	7 721 768	6 762 811
Fair value changes not reflected in actuarial value of net assets	<u>(347 460)</u>	<u>(175 284)</u>
Actuarial value of net assets available for benefits	<u>7 374 308</u>	<u>6 587 527</u>

¹ The values shown represent extrapolations.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

11. OBLIGATIONS RELATED TO BENEFITS (cont'd)**11.3 Capitalization policy**

Since December 26, 2004, participants' contribution of \$0.80 per hour worked, defined by the clauses that are common to the industry's four sectorial collective agreements, is paid into the complementary account in addition to those already foreseen for special clauses applicable to the different trades and occupations. The participants' contribution to the complementary account has varied from \$0.15 to \$3.80 per hour worked since the beginning of the plan.

For fiscal 2005, employer contributions for past and current service paid per hour worked respectively into the general and complementary accounts break down as follows:

(in dollars)		2005	
		January 1 to April 30	May 1 to December 31
Apprentices	General account		
	Past service	2.305	2.305
	Complementary account		
	Current service	0.460	0.460
Journeypersons	General account		
	Past service	2.005	2.625
	Complementary account		
	Current service	1.20	1.20

The last actuarial evaluation for capitalization purposes tabled before the Régie des rentes du Québec is that of December 31, 2004. The December 31, 2005 actuarial evaluation shows the existence of an economic fluctuation reserve of \$701 023 000 in the general account and a uncanceled obligation at December 31, 2005 of \$1 355 552 000. 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. For a journeyman, this contribution was \$2.005 per hour worked until April 30 and \$2.625 thereafter.

11.4 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 \$5.66 per hour worked instead of \$2.305 for an apprentice and \$5.98 for a journeyman instead of \$2.625 to amortize the portion of the deficit of \$1.6 billion at December 31, 2005 that is apparently not covered by contributions for past services foreseen for the next five years.

12. ACTUARIAL LIABILITIES**Insurance plans**

Actuarial liabilities represent basic insurance plan commitments related to insurance coverage in effect at December 31, 2005 and break down as follows:

	2005	2004
Provisions for benefit commitments	32 484	29 052
Provisions for pensions to disabled insured persons	33 819	35 630
	<u>66 303</u>	<u>64 682</u>

Another actuarial evaluation was prepared for solvability purposes.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

13. COMMITMENTS**General Fund**

The Commission is committed to long-term leases for office space expiring on various dates up to April 30, 2010. 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 December 31, 2005, amount to \$1 508 007 (2004: \$1 413 150). The minimum lease payments for the next five years are as follows:

2006	1 162
2007	962
2008	761
2009	85
2010	10
	<u>2 980</u>

Further, the Commission de la construction du Québec's supplemental pension plan for employees not governed by collective agreements is claiming contributions of \$359 374 from the CCQ for 1990-1992. Under an agreement between the plan and the CCQ, the latter commits to pay this amount by covering a portion of the costs of the retirement preparation program that would normally be paid by the plan. At December 31, 2005, the balance to be paid was \$304 546.

14. CONTINGENCIES

Legal proceedings against the CCQ, in the amount of \$2 404 937, were under way on 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 is of the opinion that it is unlikely that its liability will be considered significant with regard to these proceedings in comparison with the CCQ's financial position. Any payment by the CCQ, where applicable, will be recorded to the charges for the fiscal year.

15. 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 the following (weighted average of assumption as at December 31):

Actuarial evaluations

(as a percentage)	Pension plans		Other plans	
	2005	2004	2005	2004
Capitalization rate	5.20	5.75	5.75	6.50
Rate of return projected on plan assets, long-term	7.25	7.25		
Remuneration growth rate	2.25	4.00	2.25	4.00
	to	to	to	to
	3.25	5.00	4.25	5.00

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

15. 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:

	2005	2004
Average annual health care cost growth rate	9 %	8 %
Projected annual decline in growth rate	1 %	1 %
Stabilization year	2009	2007

The converging of the plan capitalization situation and the amounts posted to the balance sheet resembled the following at December 31:

	Pension plans		Other plans	
	2005	2004	2005	2004
Fair value of plan assets	265 183	244 241		
Obligations for benefits accrued	295 289	273 338	60 744	52 825
Capitalization situation – (deficit)	(30 106)	(29 097)	(60 744)	(52 825)
Unamortized net actuarial loss	(60 164)	(40 290)	(16 061)	(13 293)
Unamortized cost of past services	3 601			
Asset (liability) for benefits accrued	26 457	11 193	(44 683)	(39 532)
Provision for decline in value	(26 457)	(11 193)		
Liability for benefits accrued			(44 683)	(39 532)

According to the actuarial calculations performed for fiscal 2005, the cost of CCQ social benefits breaks down as follows:

	Pension plans		Other plans	
	2005	2004	2005	2004
Cost of social benefits recognized in the fiscal year	3 600	3 117	6 606	5 544

The other information concerning the CCQ's predefined benefit plans is as follows:

	Pension plans		Other plans	
	2005	2004	2005	2004
Employer contributions	3 600	3 117		
Employee contributions	2 661	2 421		
Benefits paid	10 456	10 354	1 454	1 378

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

16. 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:

	2005		2004	
	Nominal reference amount	Fair value	Nominal reference amount	Fair value
Selling positions	290 106	641	254 230	(971)

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 follows:

	2005	2004
Basic insurance plans	341	(478)
Supplemental insurance plans	37	(57)
Training Plan Fund – Work sectors	164	(268)
Training Plan Fund – Residential sector	30	(47)
Holiday and Vacation Pay Fund	69	(121)
	641	(971)

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.

17. 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, 2005 was \$19 913 012 (\$17 480 447 in 2004).

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

18. 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 as follows:

	2005	2004
Electricians	8 360	8 205
Roofers	769	705
Tinsmiths	1 385	1 056
Pipefitters	6 133	4 615
Linemen	1 713	1 265
Fire protection mechanics	456	365
Refrigeration mechanics	234	238
Worksite mechanics	452	325
Trowel trades	1 871	1 263
	<u>21 373</u>	<u>18 037</u>

19. 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 as follows:

	2005	2004
Eligibility Fund – Mechanics	38	52
Eligibility Fund – Locksmiths	86	82
Eligibility Fund – Linemen	19	29
Eligibility Fund – Reinforcing steel erectors	141	119
Eligibility Fund – Electricians	978	885
Eligibility Fund – Tinsmiths	300	258
Eligibility Fund – Boilermakers	220	195
Eligibility Fund – Pipefitters	1 474	1 283
	<u>3 256</u>	<u>2 903</u>

20. RECLASSIFICATION

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

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY OF QUÉBEC****ACTUARIAL VALUATION AS AT DECEMBER 31, 2005
ACTUARIAL OPINION**

The Supplemental Pension Plan for Québec construction industry employees was evaluated at December 31, 2005, based on the Regulation respecting complementary social benefit plans in the construction industry, in effect at this date, and based on data at January 1, 2005. This actuarial opinion is based on the report entitled “Évaluation actuarielle au 31 décembre 2005” dated November 15, 2005.

We certify that in our opinion,

- a) On December 31, 2005, the Plan posted an economic fluctuations reserve of \$701 023 000 in the general account and a shortfall in the adjusted value of assets over the current value of benefits of \$1 355 552 000.
- b) The pension fund was partly solvable at December 31, 2005. If the Plan were to be dissolved on December 31, 2005, the total value of the assets of the three accounts would be less than the total value of the commitments of the three accounts.
- c) The amount of amortization contributions appropriated to financing the shortfall in the adjusted value of assets over the current value of benefits breaks down as follows:

Year	Apprentices \$/hour	Journey persons \$/hour
From January 1, 2006 to April 29, 2006	2.305	2.625
From April 30, 2006 to December 31, 2018	2.305	2.305

- d) The current value of amortization contributions at December 31, 2005 is \$2 056 575 000.
- e) The data on which the evaluation is based are sufficient and reliable for evaluation purposes.
- f) Overall, the assumptions are appropriate for evaluation purposes.
- g) The methods used in the evaluation are appropriate for evaluation purposes.
- h) Given that the Plan is an interenterprise pension plan, this evaluation meets the requirements of section 4100 of the CICA handbook.

This report and the opinions it contains were produced in accordance with generally accepted actuarial practices.

Claude Lockhead, FICA, FSA
Principal Vice-president

Pierre Guérin, FICA, FSA
Principal Consultant

Montréal, April 28, 2006

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

ACTUARIAL OPINION ON THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 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 2005”.

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, 2005 in keeping with recognized accounting practices, notably by selecting appropriate assumptions and evaluation methods.

In my opinion, the actuarial liabilities of \$66 303 000 constitute appropriate provision for the obligations of these insurance plans towards the insured parties are accurately presented in the financial statements.

François Boisvenue, FICA, FSA
Vice-President

Groupe-conseil Aon
1801, avenue McGill College
Bureau 1100
Montréal (Québec) H3A 3P4

Montréal, April 28, 2006

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 drawn up by management in keeping with the accounting principles that are generally accepted in Canada. They contain certain amounts based on the use of 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 at reasonable cost. These systems are designed to provide reasonable assurance that financial information is relevant, accurate and reliable and that CCQ assets are properly 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 its 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. Their role consisted in valuating the commitments and actuarial reserves indicated in the respective financial statements of the Supplemental Pension Plan Fund and the Insurance Plans Fund. They presented their conclusions to the CCQ.

The auditing committee is appointed by the board of directors and none its members belong to management. This committee periodically meets with management and the internal auditing and organizational performance support department in order 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 to 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 audits the financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee.

André Ménard
President-Chief Executive Officer

May 4, 2006

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I audited the balance sheets of the Commission de la construction du Québec's General Fund and the following trust funds at December 31, 2005: Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector and the results, change in equity and cash flow statements for the fiscal year then ended.

I also audited the state of the net assets available for the service of the supplemental pension plan benefits and the balance sheets or statements of assets and liabilities for the insurance plans and the following trust funds as at December 31, 2005 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 the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the funds and plans as at December 31, 2005 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 generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the change applied to recording information in the employer contribution to insurance plans designed to maintain employee eligibility, disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

The Supplemental Pension Plans Act (R.S.Q., c. R-15.1) provides for pension plan financing and solvability evaluation. As mentioned in note 2.2, the 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 presented in Note 11.4.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 4, 2006

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**
(R.S.Q., c. S-32.1)

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Gouvernement du Québec operating subsidy	\$678 500	\$678 500
Interest on bank deposits	<u>896</u>	<u>193</u>
	<u>679 396</u>	<u>678 693</u>
EXPENSES		
Salaries and fringe benefits	508 624	454 149
Training	2 832	777
Travelling and entertainment	2 683	1 980
Professional fees	52 606	66 943
Rent	95 863	84 767
Insurance	3 186	2 008
Maintenance and equipment rental	4 838	4 197
Advertising	290	29 111
Documentation	2 790	3 298
Telecommunications	4 559	4 295
Office supplies	6 277	6 098
Furniture and equipment		524
Interest and bank charges	1 012	949
Amortization of fixed assets	3 731	4 194
Amortization of intangible assets	1 613	681
Other	<u>1 192</u>	<u>1 160</u>
	<u>692 096</u>	<u>665 131</u>
(DEFICIT) SURPLUS FOR THE YEAR	(12 700)	13 562
SURPLUS (DEFICIT), BEGINNING OF YEAR	<u>1 257</u>	<u>(12 305)</u>
(DEFICIT) SURPLUS, END OF YEAR	<u><u>\$(11 443)</u></u>	<u><u>\$1 257</u></u>

The notes are an integral part of these financial statements.

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

BALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$69 056	\$103 456
Accounts receivable	6 938	
Prepaid expenses	<u>11 318</u>	<u>4 347</u>
	87 312	107 803
Fixed assets (Note 3)	15 335	16 047
Intangible assets (Note 4)	<u>8 542</u>	<u>7 160</u>
	<u><u>\$111 189</u></u>	<u><u>\$131 010</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$28 480	\$48 200
Provision for vacation time accumulated	<u>12 259</u>	<u>12 402</u>
	40 739	60 602
Provision for sick leave (Note 5)	<u>81 893</u>	<u>69 151</u>
	122 632	129 753
(DEFICIT) SURPLUS	<u>(11 443)</u>	<u>1 257</u>
	<u><u>\$111 189</u></u>	<u><u>\$131 010</u></u>
CONTINGENCY (Note 7)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
M^e Jean Corriveau
President

COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES ET DES ASSOCIATIONS DE PRODUCTEURS

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

1. CONSTITUTION AND PURPOSE

The Commission de reconnaissance des associations d'artistes et des associations de producteurs was established under the Act respecting the professional status and conditions of engagement of performing, recording and film artists (R.S.Q., c. S-32.1). Its duties include rendering decisions on any application for recognition submitted by an artists' or a producers' association, appointing a mediator at the request of a party to the negotiation of a group agreement and appointing an arbitrator in the event of a dispute during the negotiation of a group agreement.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Recording subsidies

Operating subsidies are recorded under proceeds when they are received or receivable and that it is relatively certain that it will be received.

Fixed assets

Fixed assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

Furniture and fixtures	10%
Data processing equipment	20%

The Commission regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the 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 based on the probable length of their use according to the straight-line method at the following annual rates:

Software	20%
Website	25%

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

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

3. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Furniture and fixtures	\$18 958	\$11 071	\$7 887	\$8 695
Data processing equipment	11 624	4 176	7 448	7 352
	<u>\$30 582</u>	<u>\$15 247</u>	<u>\$15 335</u>	<u>\$16 047</u>

Acquisitions for the fiscal year totalled \$3 020 (2005: \$4 788).

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Website	\$4 690	\$782	\$3 908
Software	6 401	1 767	4 634
	<u>\$11 091</u>	<u>\$2 549</u>	<u>\$8 542</u>
			<u>\$7 160</u>

Acquisitions for the fiscal year totalled \$2 995 (2005: \$4 690).

5. FUTURE FRINGE BENEFITS

Pension plans

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

The Commission's contributions charged to the year-end statement amount to \$19 216 (2005: \$11 666). The liability of the Commission towards these plans is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Opening balance	\$69 151	\$63 302
Charge for the year	13 635	6 241
Benefits paid during the year	<u>(893)</u>	<u>(392)</u>
Closing balance	<u>\$81 893</u>	<u>\$69 151</u>

6. RELATED PARTY TRANSACTIONS

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

7. CONTINGENCY

In March 2006, legal proceedings were instituted by various artists' associations seeking cancellation of the order appointing a Commission member. The proceedings target the Attorney-General of Québec and the Minister of Culture and Communications. The Commission must pay the professional fees incurred to represent the manager in question. At the date these financial statements were prepared, Commission management was not yet able to assess the proceedings' outcome or the financial impacts that might result, if applicable.

8. FINANCIAL INSTRUMENTS

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

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES
ET DES ASSOCIATIONS DE PRODUCTEURS****MANAGEMENT'S REPORT**

The financial statements of the Commission de reconnaissance des associations d'artistes et des associations de producteurs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

M^e Jean Corriveau, President
M^e Hélène Lavallée, Secretary and Legal Advisor

Montréal, June 19, 2006

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, 2006 and the income and surplus statement for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 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, June 19, 2006

COMMISSION DES LÉSIONS PROFESSIONNELLES
(R.S.Q., c.A-3.001)

INCOME STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
REVENUES		
Commission de la santé et de la sécurité du travail contribution	\$52 759 430	\$50 974 832
Gouvernement du Québec subsidy		1 539 698
Interest	172 886	98 677
Publications and services	<u>12 175</u>	<u>14 261</u>
	<u>52 944 491</u>	<u>52 627 468</u>
EXPENSES		
Salaries and fringe benefits	33 974 635	33 573 165
Transportation and communications	2 484 607	2 333 711
Professional services	7 196 064	6 928 247
Rent and maintenance	5 165 447	5 099 916
Supplies	604 386	679 974
Amortization of fixed assets	1 534 589	1 229 681
Amortization of intangible assets	93 213	42 338
Interest on long-term debt	22 832	33 334
Other	<u>16 397</u>	<u>9 332</u>
	<u>51 092 170</u>	<u>49 929 698</u>
EXCESS REVENUES OVER EXPENSES	<u>\$1 852 321</u>	<u>\$2 697 770</u>

The notes are an integral part of these financial statements.

DEFICIT FUND BALANCE STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
FUND DEFICIT, BEGINNING OF YEAR		
Balance previously established	\$(8 561 916)	\$(11 174 686)
Changes to accounting policy (Note 3)		
Capitalization of computer development	85 000	
Recording of prepaid expenses	<u>474 544</u>	
Adjusted balance	<u>(8 002 372)</u>	<u>(11 174 686)</u>
Excess revenues over expenses for the fiscal year	<u>1 852 321</u>	<u>2 697 770</u>
FUND DEFICIT, END OF YEAR	<u><u>\$(6 150 051)</u></u>	<u><u>\$(8 476 916)</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLES

BALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
ASSETS		
Current assets		
Cash and cash equivalents	\$6 421 970	\$5 100 024
Accounts receivable	50 944	9 078
Interest accrued	45 528	28 687
Advances for travel expenses	2 040	13 000
Prepaid expenses	<u>665 900</u>	<u>99 350</u>
	7 186 382	5 250 139
Fixed assets (Note 4)	3 016 345	2 987 838
Intangible assets (Note 5)	<u>391 690</u>	<u>225 031</u>
	<u><u>\$10 594 417</u></u>	<u><u>\$8 463 008</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$2 529 641	\$2 800 680
Instalments on long-term debt (Note 6)	<u>202 432</u>	<u>195 290</u>
	2 732 073	2 995 970
Long-term debt (Note 6)	53 897	261 881
Provision for transition allowances (Note 8)	3 200 167	3 046 951
Provision for sick leave and vacation time (Note 8)	<u>10 758 331</u>	<u>10 635 122</u>
	16 744 468	16 939 924
FUND DEFICIT	<u>(6 150 051)</u>	<u>(8 476 916)</u>
	<u><u>\$10 594 417</u></u>	<u><u>\$8 463 008</u></u>
COMMITMENTS (Note 9)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
Micheline Bélanger

COMMISSION DES LÉSIONS PROFESSIONNELLES

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006	2005 (Note 3)
OPERATING ACTIVITIES		
Excess revenues over expenses	\$1 852 321	\$2 697 770
Adjustments for:		
Amortization of fixed assets	1 534 589	1 229 681
Amortization of intangible assets	93 213	42 338
Gain/loss on proceeds from disposal of fixed assets	2 088	(1 943)
Change in provision for transition allowances	153 216	(44 368)
Change in provision for sick leave and vacation time	123 209	(253 087)
	<u>3 758 636</u>	<u>3 670 391</u>
Variations in non-cash elements linked to operations (Note 7)	<u>(773 287)</u>	<u>(528 258)</u>
Cash flows provided by operating activities	<u>2 985 349</u>	<u>3 142 133</u>
INVESTMENT ACTIVITIES		
Proceeds from disposal of fixed assets	8 780	19 279
Acquisition of fixed assets	(1 232 736)	(821 343)
Acquisition of intangible assets	<u>(238 605)</u>	<u>(226 436)</u>
Cash flows used for investment activities	<u>(1 462 561)</u>	<u>(1 028 500)</u>
INVESTMENT ACTIVITIES		
Repayment of long-term debt	<u>(200 842)</u>	<u>(184 066)</u>
Cash flows used for financing activities	<u>(200 842)</u>	<u>(184 066)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1 321 946	1 929 567
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 100 024</u>	<u>3 170 457</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	<u><u>\$6 421 970</u></u>	<u><u>\$5 100 024</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION, PURPOSE AND FINANCING

The Commission, a legal person under the Civil Code, created under the Act respecting industrial accidents and occupational diseases (R.S.Q., c. A-3.001), is mandated to hear and deal with cases contesting decisions rendered by the Commission de la santé et de la sécurité du travail following an administrative review.

The amounts required by the Commission for its operations are taken out of the Commission fund, which consists of the sums paid into it by the Commission de la santé et de la sécurité du travail according to terms and conditions determined by the Government.

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Recording proceeds

The Commission de la santé et de la sécurité du travail contribution is recorded under proceeds when they are received or receivable and is it is relatively certain that it will be received.

Cash and cash equivalents

The Commission's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired or that convertible to cash at any time.

Fixed assets

Fixed assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

Office furniture and equipment	20%
Automotive equipment	20%
Data processing equipment	33.3%
Leasehold improvements	Term of lease, maximum 5 years

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized based on the probable length of their use according to the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that their book value may not be recovered.

Pension plans

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

3. CHANGES TO ACCOUNTING POLICIES

Capitalization of computer development

The financial statements for the fiscal year ended March 31, 2005 have been adjusted to correct the manner in which intangible assets are recorded.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. CHANGES TO ACCOUNTING POLICIES (cont'd)**Recording prepaid expenses**

As of the current fiscal year, the purchase of pre-postmarked envelopes is posted to prepaid expenses and transferred to results when they are used. They were previously recorded to results when they were paid. The effect of this change on past fiscal years was posted on April 1, 2005 directly to the balance owing for the fiscal year ended March 31, 2006. The financial statements for the fiscal year ended March 31, 2005 have not been adjusted to reflect this change.

These changes resulted in the increase (decrease) in the following items in the financial statements for the following years ended March 31:

	2006	2005
Results		
Salaries and fringe benefits	\$(75 000)	\$(60 000)
Professional services		(25 000)
Amortization of intangible assets	18 754	
Balance sheet		
Prepaid expenses	\$474 544	
Intangible assets	141 246	\$85 000
Fund deficit	(615 790)	(85 000)

4. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$4 083 309	\$3 481 762	\$601 547
Automotive equipment	61 835	4 997	56 838
Computer equipment	3 419 083	2 023 713	1 395 370
Leasehold improvements	3 776 191	2 813 601	962 590
	<u>\$11 340 418</u>	<u>\$8 324 073</u>	<u>\$3 016 345</u>
			<u>\$2 987 838</u>

Leasehold improvements and data computer equipment with net book values of \$239 265 and \$42 390 respectively were not amortized because they were under construction or not operational at fiscal year-end.

5. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Software	\$456 513	\$251 959	\$204 554
Computer development	210 000	22 864	187 136
	<u>\$666 513</u>	<u>\$274 823</u>	<u>\$391 690</u>
			<u>\$225 031</u>

Software with a book value of \$73 070 was not amortized because it was not in use at fiscal year-end.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. LONG-TERM DEBT

	2006	2005
Borrowings from the Société immobilière du Québec, fixed rate varying from 5.52% to 6.68%, repayable in monthly instalments of \$18 117, maturing until September 2008	\$256 329	\$457 171
Less: Payments falling due within a year	202 432	195 290
	<u>\$53 897</u>	<u>\$261 881</u>

Capital payments to be made over the next three fiscal years break down as follows:

2007	244 038	\$
2008	104 188	
2009	17 640	

7. CASH FLOWS

	2006	2005
Variation in non-cash elements linked to operations		
Increase in accounts receivable	\$(41 866)	\$(1 922)
Increase in accrued interest	(16 841)	(22 596)
Change in advances for travel expenses	10 960	
Increase in prepaid expenses	(92 006)	(25 259)
Decrease in accounts payable and accruals	(633 534)	(478 481)
	<u>\$(773 287)</u>	<u>\$(528 258)</u>
Composition of cash and cash equivalents		
Cash on hand	\$4 421 970	\$3 600 024
Term deposits (rate: 2.5%)	2 000 000	1 500 000
	<u>\$6 421 970</u>	<u>\$5 100 024</u>

Interest payments on the long-term debt over the fiscal year total \$21 767 (2005: \$33 334).

At March 31, 2006, the item Accounts payable and accruals included the acquisition of fixed assets and intangible assets of \$341 228 and \$21 267 (2005: 801 521 and \$-) respectively.

8. FUTURE FRINGE BENEFITS**Pension plans**

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

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. FUTURE FRINGE BENEFITS (cont'd)

Pension plans (cont'd)

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 \$1 615 003 (2005: \$1 130 938). The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

Provision for transition allowances

Transition allowances are payable to commissioners, other than public-service commissioners, whose mandate is not renewed or who are not seeking renewal of their mandate. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2006	2005
Opening balance	\$3 046 951	\$3 091 319
Charge for the year	153 216	64 750
Benefits paid during the year		(109 118)
Closing balance	<u>\$3 200 167</u>	<u>\$3 046 951</u>

Provision for sick leave and vacation time

	2006			2005
	Sick leave	Vacation time	Total	Total
Opening balance	\$6 658 739	\$3 976 383	\$10 635 122	\$10 888 209
Charge for the year	1 079 594	2 836 543	3 916 137	3 256 824
Benefits paid during the year	(970 029)	(2 822 899)	(3 792 928)	(3 509 911)
Closing balance	<u>\$6 768 304</u>	<u>\$3 990 027</u>	<u>\$10 758 331</u>	<u>\$10 635 122</u>

9. COMMITMENTS

Minimal contractual commitments for operating lease and space rental contracts break down as follows at March 31, 2006:

2007	\$244 038
2008	104 188
2009	17 640
2010	15 435
	<u>\$381 301</u>

10. RELATED PARTY TRANSACTIONS

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

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

11. FINANCIAL INSTRUMENTS

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

The fair value of the long-term debt, determined using the capitalized value of future cash flows under current funding agreements, in keeping with the interest rates offered to the Commission on the market for borrowings with similar conditions and maturity dates, is presented in the following:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt	<u>\$256 334</u>	<u>\$250 469</u>	<u>\$457 271</u>	<u>\$435 559</u>

12. COMPARATIVE FIGURES

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

MANAGEMENT'S REPORT

The financial statements of the Commission des lésions professionnelles were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Each manager performs a monthly analysis and verification of his administrative unit's budgetary position.

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

The board of directors must oversee the manner in which management fulfils its financial reporting duties.

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

Micheline Bélanger
Chairman

Québec, June 15, 2006

COMMISSION DES LÉSIONS PROFESSIONNELLES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission des lésions professionnelles as at March 31, 2006, the income statement, deficit fund balance statement and cash flow statement for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 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, given the retroactive application of the change in accounting treatment of prepaid expenses and computer development disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 15, 2006

COMMISSION DES NORMES DU TRAVAIL
(R.S.Q., c. N-1.1)

RESULTS AND SURPLUS
for the year ended March 31, 2006

	2006	2005
REVENUES		
Employer contributions (Note 3)	\$52 095 369	\$48 536 499
Interest on investments	697 831	655 497
Other (Note 4)	217 293	293 608
	<u>53 010 493</u>	<u>49 485 604</u>
EXPENSES		
Salaries and fringe benefits	32 892 669	31 953 904
Professional and administrative services	2 318 875	2 253 969
Travelling expenses	1 190 930	1 364 573
Telecommunications and mail	1 250 847	1 301 702
Advertising and information	582 602	632 527
Rental of office space, equipment and other	3 834 226	3 416 777
Maintenance	856 309	868 438
Supplies	630 823	683 745
Interest and bank charges	12 937	11 535
Depreciation of fixed assets	1 382 206	1 435 947
Amortization of intangible assets	1 616 703	143 424
Net loss on disposal of fixed assets	2 086	11 552
	<u>46 571 213</u>	<u>44 078 093</u>
Agreements with the Gouvernement du Québec (Note 12):		
Revenu Québec collection fee	411 752	402 888
Reimbursement of Commission des relations du travail expenses	5 924 630	6 121 440
	<u>52 907 595</u>	<u>50 602 421</u>
SURPLUS (INSUFFICIENCY) OF REVENUES OVER EXPENSES	102 898	(1 116 817)
SURPLUS, BEGINNING OF YEAR	<u>51 074 584</u>	<u>52 191 401</u>
SURPLUS, END OF YEAR	<u>\$51 177 482</u>	<u>\$51 074 584</u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Investments – at cost (Note 5)	\$46 308 271	\$47 152 017
Accounts receivable	175 173	126 041
Accrued interest on investments	91 045	67 189
	<u>46 574 489</u>	<u>47 345 247</u>
Fixed assets (Note 6)	3 851 733	3 768 062
Intangible assets (Note 7)	14 441 875	15 565 797
	<u>\$64 868 097</u>	<u>\$66 679 106</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$147 724	\$32 943
Accounts payable and accruals	2 507 738	4 832 633
Claims collected for remittance to employees (Note 9)	81 184	162 553
Allowance for vacation pay (Note 10)	4 496 849	4 445 092
	<u>7 233 495</u>	<u>9 473 221</u>
Allowance for sick leave (Note 10)	6 457 120	6 131 301
SURPLUS (Note 11)	51 177 482	51 074 584
	<u>\$64 868 097</u>	<u>\$66 679 106</u>
COMMITMENTS (Note 12)		
CONTINGENCY (Note 16)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
André Brochu
Gaston Lafleur

COMMISSION DES NORMES DU TRAVAIL**CASH FLOW**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Surplus (insufficiency) of revenues over expenses	\$102 898	\$(1 116 817)
Elements not affecting cash:		
Depreciation of fixed assets	1 382 206	1 435 947
Amortization of intangible assets	1 616 703	143 424
Net loss on disposal of fixed assets	<u>2 086</u>	<u>11 552</u>
	<u>3 103 893</u>	<u>474 106</u>
Change in non-cash elements related to operations:		
Change in accounts receivable	(49 132)	329 892
Change in accrued interest on investments	(23 856)	11 973
Change in accounts payable and accruals	(1 556 484)	792 194
Decrease in claims collected for remittance to employees	(81 369)	(192 212)
Increase in allowance for vacation pay	51 757	603 517
Change in allowance for sick leave	<u>325 819</u>	<u>(55 828)</u>
	<u>(1 333 265)</u>	<u>1 489 536</u>
Cash flows provided by operating activities	<u>1 770 628</u>	<u>1 963 642</u>
INVESTMENT ACTIVITIES		
Variation in investments	(6 100 000)	3 100 000
Acquisition of fixed assets	(1 495 689)	(2 800 588)
Acquisition of intangible assets	(1 235 224)	(5 634 727)
Proceeds from disposal of fixed assets	<u>1 758</u>	<u>500</u>
Cash flows used for investment activities	<u>(8 829 155)</u>	<u>(5 334 815)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(7 058 527)	(3 371 173)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>28 919 074</u>	<u>32 290 247</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	<u><u>\$21 860 547</u></u>	<u><u>\$28 919 074</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Commission des normes du travail, established under the Act respecting labour standards (R.S.Q., c. N-1.1), is a legal person within the meaning of the Civil Code and has all the general powers of such a legal person.

The Commission is responsible for overseeing the implementation and application of labour standards. More specifically, it must inform the population on matters dealing with labour standards, supervise the application of labour standards and, when necessary, transmit its recommendations to the Minister. The Commission also receives complaints from employees and must indemnify the latter to the extent provided for in the Act and regulations respecting labour standards and endeavour to work out agreements between employers and employees concerning their different positions on the application of said Act and regulations.

Under section 984 of the Québec Taxation Act 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Investments

Investments are recorded using the method of the lesser of cost and market value.

Cash and cash equivalents

The Commission's policy consists in presenting cash and cash equivalents, 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.

Fixed assets

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

	Rate
Equipment	20%
Furniture	20%
Automotive equipment	33.33%
Leasehold improvement	20%
Data processing equipment	33.33%

The Commission regularly examines the book value of its fixed assets by comparing it with future, unrealized cash flows that should be generated by the asset. If the book value exceeds the estimated amount that can be recovered, a loss of value corresponding to the surplus of the book value over the fair value of the asset is posted to results.

Intangible assets

Intangible assets comprising software and computer development are recorded at cost and amortized over their expected service life using the straight-line method. They undergo a depreciation test when changes in the situation indicate it may not be possible to recover their book value.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

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

	<u>Rate</u>
Software	33.33%
Computer development	10 and 20%

Computer development projects are amortized when completed and up and running.

Employer contributions

Employer contributions are collected by Revenu Québec. Determined jointly with Revenu Québec, these contributions are recorded using an estimate of the growth in the payroll the preceding calendar year. They remain subject to auditing and, where applicable, the adjustments are posted to the contributions for the fiscal year in which they become known.

Pension plans

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

3. EMPLOYER CONTRIBUTIONS

	<u>2006</u>	<u>2005</u>
Estimated contributions for the year	<u>\$51 885 083</u>	<u>\$49 830 094</u>
Increase (decrease) in contributions related to previous fiscal years		
2005	360 056	
2004	(1 217)	(1 125 912)
2003	19 694	(213 707)
2002	(40 502)	51 724
2001	1 132	1 479
1996 to 2000	<u>(128 877)</u>	<u>(7 179)</u>
	<u>210 286</u>	<u>(1 293 595)</u>
	<u>\$52 095 369</u>	<u>\$48 536 499</u>
Growth rate applied to the payroll for the previous calendar year to establish contributions for the fiscal year	<u>3.64%</u>	<u>3.10%</u>
Payroll subject to previous calendar year, used to estimate the contributions for the fiscal year (in billions of dollars)	<u>64.9</u>	<u>62.3</u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**4. OTHER PRODUCTS**

	2006	2005
Claims collected for employees that could not be located	\$19 295	\$25 693
Sales of publications	2 534	4 515
Recovery of legal costs	195 464	263 400
	<u>\$217 293</u>	<u>\$293 608</u>

5. INVESTMENTS

	2006	2005
Term deposits	\$32 800 000	\$26 150 000
Discount note		4 628 607
Bankers' acceptances	13 508 271	16 373 410
	<u>\$46 308 271</u>	<u>\$47 152 017</u>

Interest rates vary from 3.76% to 4.15% (2005: 2.54% to 2.81%). These investments mature in the coming fiscal year.

6. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Equipment	\$1 690 661	\$1 242 892	\$447 769
Furniture	2 259 619	965 058	1 294 561
Automotive equipment	26 472	19 472	7 000
Leasehold improvements	5 331 989	3 770 237	1 561 752
Data processing equipment	3 916 332	3 375 681	540 651
	<u>\$13 225 073</u>	<u>\$9 373 340</u>	<u>\$3 851 733</u>
			<u>\$3 768 062</u>

Fixed assets are classified under the headings "equipment" and "leasehold improvements" representing respectively \$25 903 and \$23 365 were not amortized, given that they were not operational at fiscal year-end.

7. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Software	\$669 763	\$585 033	\$84 730
Computer development	19 568 042	5 210 897	14 357 145
	<u>\$20 237 805</u>	<u>\$5 795 930</u>	<u>\$14 441 875</u>
			<u>\$15 565 797</u>

Intangible assets classified under the heading "Computer development" in the amount of \$132 735 (2005: \$14 851 739) were not amortized, given that they are in the process of being completed.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. 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 for an amount not exceeding \$6 000 000 for fiscal 2006 (2005: \$3 000 000). Borrowings are negotiated during the fiscal year based on the Commission's cash requirements. At March 31, 2006 and 2005, the short-term borrowing included no balance.

9. CLAIMS COLLECTED PAYABLE TO EMPLOYEES

	2006	2005
Opening balance	\$162 553	\$354 765
Claims collected by employers	2 608 702	2 478 528
	2 771 255	2 833 293
Claims paid to employees	2 670 776	2 645 047
Transfer to income from claims collected for employees that could not be located	19 295	25 693
	2 690 071	2 670 740
Closing balance	<u>\$81 184</u>	<u>\$162 553</u>

10. FUTURE FRINGE BENEFITS**Pension plans**

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

The Commission's contributions charged to the year-end statement amount to \$1 388 200 (2005: \$1 005 612). The Commission's liability towards these Government plans is restricted to its contributions as an employer.

Allowance for vacation pay and sick leave

	2006		2005	
	Vacation pay	Sick leave	Vacation pay	Sick leave
Opening balance	\$4 445 092	\$6 131 301	\$3 841 575	\$6 187 129
Charge for the year	2 983 930	1 430 069	3 238 784	819 480
Benefits paid during the year	(2 932 173)	(1 104 250)	(2 635 267)	(875 308)
Closing balance	<u>\$4 496 849</u>	<u>\$6 457 120</u>	<u>\$4 445 092</u>	<u>\$6 131 301</u>

11. SURPLUS

The Commission receives approximately 97% of its revenues during the last month of its fiscal year. Its operations, among other things, are financed from its surplus represented essentially by investments. For example, the \$51 177 482 surplus as at March 31, 2006, will be used to finance about 95% of the operating expenses and the acquisition of fixed assets and intangible assets anticipated for the first eleven months of the coming year.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. COMMITMENTS

Agreements with the Gouvernement du Québec

Under section 6.1 of the Act respecting labour standards, the Commission entered into an agreement with Revenu Québec. This agreement, which expired on December 31, 2002 and could be renewed for five years, makes provisions for having Revenu Québec collect employer contributions, in exchange for collection fees that are indexed annually to reflect the consumer price index. Negotiations between the two parties are currently under way for fiscal 2007 in order to determine the terms and conditions of the next agreement. Collection fees totalled \$411 752 and were posted to results for fiscal 2006 (2005: \$402 888).

Under section 28.1 of the Act respecting labour standards, the Commission contributes to the Commission des relations du travail fund to cover the expenses related to the provisions of this Act concerning recourse against a prohibited practice and against dismissal without just and sufficient cause. The amount of the Commission des normes du travail contribution is set by the Government, after the Minister consults the Commission. The amount of the contribution was set at \$5 924 630 for fiscal 2006 (2005: \$6 121 440). The amount of the contribution for fiscal 2007 has not yet been set. However, it will be 46% (2006: 46%) of the Commission des relations du travail's costs, excluding certain expenses specific to the Commission.

Other

Minimal contractual agreements payable for operating leases and contracts for the acquisitions of goods and services break down as follows at March 31, 2006:

	Operating lease	Goods and services	Total
2007	\$3 721 382	\$1 891 317	\$5 612 699
2008	48 928	300 727	349 655
2009	39 018	267 464	306 482
2010	23 486		23 486
2011	10 814		10 814
	<u>\$3 843 628</u>	<u>\$2 459 508</u>	<u>\$6 303 136</u>

13. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following amounts posted in the balance sheet:

	2006	2005
Investments	\$22 008 271	\$28 952 017
Bank overdraft	(147 724)	(32 943)
	<u>\$21 860 547</u>	<u>\$28 919 074</u>

Interest paid by the Commission during the fiscal year totalled \$1 337 (2005: \$0).

At March 31, 2006, the item "Creditors and accrued expenses" included acquisitions of fixed assets and intangible assets, representing \$172 015 and \$91 175 respectively (2005: \$197 984 and \$833 618).

COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 near future.

Management feels that these financial instruments do not expose the Commission to significant interest-rate risks.

15. RELATED PARTY TRANSACTIONS

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

16. CONTINGENCY

Following the adoption of the Pay Equity Act on November 21, 1996, the Commission has had to assess different job classes. When these financial statements were prepared, the Commission was not able to assess the amount it might have to pay, if applicable, given that work related to this process had not been completed. Consequently, no amount was recorded in the financial statements.

17. COMPARATIVE FIGURES

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

COMMISSION DES NORMES DU TRAVAIL**MANAGEMENT'S REPORT**

The financial statements of the Commission des normes du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management employees. The audit committee meets with management and the Auditor General of Québec, reviews the financial statements and recommends their approval to the board of directors.

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

André Brochu
President-CEO

Gaétan Thériault
Director-General, Management Services

Québec, May 11, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des normes du travail as at March 31, 2006, the results and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 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, May 11, 2006

COMMISSION DES RELATIONS DU TRAVAIL
(R.S.Q., c. C-27)

INCOME STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
REVENUES		
Contributions		
Gouvernement du Québec – Ministère du Travail	\$7 450 500	\$7 448 060
Commission des normes du travail	5 924 630	6 121 440
Sales of forms and documents	7 057	13 209
Interest	<u>24 934</u>	<u>18 951</u>
	<u>\$13 407 121</u>	<u>\$13 601 660</u>
EXPENSES		
Salaries and fringe benefits	9 940 558	9 325 850
Transportation and communication services	684 194	778 879
Professional and administrative services	1 190 126	1 216 583
Maintenance and repairs	74 398	58 218
Rent	1 388 005	1 160 223
Furnishings and supplies	84 198	84 934
Material and equipment	37 394	46 360
Other expenses	173	3 048
Interest – long-term debt	56 030	24 567
Depreciation of		
Fixed assets	370 223	273 353
Intangible assets	<u>73 238</u>	<u>78 678</u>
	<u>13 898 537</u>	<u>13 050 693</u>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	<u>(491 416) \$</u>	<u>\$550 967</u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL
(R.S.Q., c. C-27)

DEFICIT STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
OPENING BALANCE		
Previously established	\$30 216	\$(528 498)
Change in accounting policies (Note 3)	<u>(15 923)</u>	<u>(8 176)</u>
Adjusted	14 293	(536 674)
Surplus (insufficient) revenues over expenses	<u>(491 416)</u>	<u>550 967</u>
CLOSING SURPLUS (DEFICIT)	<u><u>\$(477 123)</u></u>	<u><u>\$14 293</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 807	\$10 574
Accounts receivable	138 687	109 722
Advance to the Consolidated Revenue Fund without terms of repayment, interest at the prime rate minus 2.5%	3 039 276	3 060 136
Owed by the Gouvernement du Québec (Note 4)	211 572	181 622
	<u>3 391 342</u>	<u>3 362 054</u>
Owed by the Gouvernement du Québec (Note 4)	270 885	414 161
Fixed assets (Note 5)	1 528 879	570 628
Intangible assets (Note 6)	172 107	272 545
	<u>\$5 363 213</u>	<u>\$4 619 388</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$416 728	\$506 898
Long-term debt maturing in the next fiscal year (Note 8)	181 586	120 096
	<u>598 314</u>	<u>626 994</u>
Provision for transition allowances (Note 7)	889 596	755 330
Provision for sick leave and vacation time (Note 7)	3 226 097	2 980 691
Long-term debt (Note 8)	1 126 329	242 080
	<u>5 840 336</u>	<u>4 605 095</u>
SURPLUS (DEFICIT)	(477 123)	14 293
	<u>\$5 363 213</u>	<u>\$4 619 388</u>

COMMITMENTS (Note 9)

The notes are an integral part of these financial statements.

On behalf of the Commission,
Andrée St-Georges, Chairman

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION, PURPOSE AND FINANCEMENT

The Commission des relations du travail constituted under the Labour Code (R.S.Q., c. C-27) is mandated to hear and have access to a range of recourses linked to employment and labour relations in Québec. It assumes the decision-making responsibilities formerly attributed to the Bureau du commissaire général du travail in terms of collective labour relations. It is in charge of ensuring that the Labour Code is applied diligently and effectively, and carrying out the other duties envisaged under the Code, the Act respecting labour standards (R.S.Q., c. N-1.1) and the approximately 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 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates. The cash flow statement is not shown as it would not provide any useful additional information on cash flows during the year.

Fixed assets

Fixed assets are recorded at cost. They are amortized according to their probable use using the straight-line method and the following rates:

	<u>Rates</u>
Office furniture	20 %
Computer material and equipment	33 1/3 %
Leasehold improvements	Duration of lease

Intangible assets

Computer development is recorded at cost and amortized according to its probable use using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that its book value may not be recovered. Any excess in the book value over the fair value is posted to the results of the period in which the depreciation was determined.

Pension plans

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

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Recording proceeds**

Contributions are recorded as proceeds when they are received or receivable if the amount can reasonably be estimated and that it is relatively certain that they will be received.

3. CHANGE IN ACCOUNTING POLICY**Leasehold improvements**

As of this fiscal year, leasehold improvements funded from monthly rental payments are capitalized as fixed assets. Previously, monthly rental costs were posted to expenses.

This change, which was applied retroactively, will increase (decrease) the following items in the financial statements:

	<u>2006</u>	<u>2005</u>
REVENUES AND EXPENSES		
EXPENSES		
Rent	\$(223 800)	\$(137 870)
Interest – long-term debt	56 030	24 567
Depreciation – fixed assets	182 912	121 050
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	(15 142)	(7 747)
BALANCE SHEET		
ASSETS		
Fixed assets	1 276 850	346 253
LIABILITIES		
Long-term debt	<u>1 307 915</u>	<u>362 176</u>
SURPLUS (DEFICIT)	<u><u>\$(31 065)</u></u>	<u><u>\$(15 923)</u></u>

4. OWED BY THE GOUVERNEMENT DU QUÉBEC

The amount owed by the Gouvernement du Québec does not bear interest. The terms and conditions of repayment are the following:

2007	\$211 572
2008	<u>270 885</u>
	482 457
Less: Short-term portion	<u>211 572</u>
	<u><u>\$270 885</u></u>

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net value
Office furniture	\$171 894	\$47 869	\$124 025
Computer material and equipment	578 124	450 120	128 004
Leasehold improvements	1 679 482	402 632	1 276 850
	<u>\$2 429 500</u>	<u>\$900 621</u>	<u>\$1 528 879</u>
			<u>\$570 628</u>

Acquisitions of immoveables for the fiscal year total \$1 328 474 (2005: \$89 209).

6. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net value
Computer development	<u>\$357 119</u>	<u>\$185 012</u>	<u>\$172 107</u>
			<u>\$272 545</u>

The proceeds from disposing of intangible assets for the fiscal year total \$27 200 (2005: - \$).

7. FUTURE FRINGE BENEFITS**Pension plans**

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

The Commission's contributions charged to the year-end statement amount to \$438 616 (2005: \$306 259). The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

Provision for transition allowances

Transition allowances are payable to commissioners whose mandate is not renewed or who are not seeking renewal of their mandate. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2006	2005
Opening balance	\$755 330	\$516 254
Charge for the year	282 649	255 934
Allowance for the year	<u>(148 383)</u>	<u>(16 858)</u>
Closing balance	<u>\$889 596</u>	<u>\$755 330</u>

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

	2006		2005
	Sick leave	Vacation time	Total
Opening balance	\$1 778 717	\$1 201 974	\$2 980 691
Charge for the year	370 431	863 769	1 234 200
Benefits paid during the year	(188 652)	(800 142)	(988 794)
Closing balance	<u>\$1 960 496</u>	<u>\$1 265 601</u>	<u>\$3 226 097</u>

8 LONG-TERM DEBT

	2006	2005
Obligations resulting from leasehold improvement funding included in leases, at interest rates varying between 4.69% and 6.08%, maturing up to 2021	\$1 307 915	\$362 176
Less: Instalment maturing within one year	<u>181 586</u>	<u>120 096</u>
	<u>\$1 126 329</u>	<u>\$242 080</u>

Minimum future instalments payable in the coming fiscal years over obligations resulting from leasehold improvement funding break down as follows:

2007	\$240 986
2008	196 325
2009	128 661
2010	103 115
2011	103 115
2012 to 2021	<u>945 225</u>
Total minimum amounts payable	1 717 427
Less: amount representing interest included in minimum amounts payable	<u>409 512</u>
	<u>\$1 307 915</u>

The market value of long-term debts is equivalent to the cost, given that the principal contract was negotiated during the exercise.

9. CONTINGENCIES

The Commission made commitments to pay certain amounts under a service agreement with the Ministère de l'Emploi et de la Solidarité sociale that mature on March 31, 2009. The amount of commitments is \$2 809 800 including the following payments for the next three fiscal years: 2007 - \$936 600, 2008: \$936 600, 2009: \$936 600.

Further, under leases for premises, it made commitments in the amount of \$8 371 507. These leases run until May 2020 and include a renewal option. A clause provides for rental payment review to reflect operating expenses and taxes.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. CONTINGENCIES (cont'd)

Payments over the next fiscal years, based on the rental amount at March 31, 2006, are:

2007	\$1 278 287
2008	1 278 287
2009	794 862
2010	449 559
2011	449 559
2012 à 2021	<u>4 120 953</u>
	<u><u>\$8 371 507</u></u>

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in the financial statements and recorded at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission 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.

11. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given their pending maturity date. 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.

COMMISSION DES RELATIONS DU TRAVAIL**MANAGEMENT'S REPORT**

The financial statements of the Commission des relations du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

Andrée St-Georges
President

Québec, June 29, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des relations du travail as at March 31, 2006, and the income and deficit statements for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 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, with the exception of the retroactive application of the change in the method used to report leasehold improvements disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 29, 2006

COMMISSION DES SERVICES JURIDIQUES

(R.S.Q., c. A-14)

GENERAL FUND

STATEMENT OF CONSOLIDATED RESULTS

for the year ended March 31, 2006

	Operations		Private practice (Section 52)		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Gouvernement du Québec grants						
Regular	\$74 910 100	\$78 636 300	\$47 653 300	\$46 794 800	\$122 563 400	\$125 431 100
Court costs	1 329 228	1 289 502	865 772	905 498	2 195 000	2 195 000
Other organization – Conseil du trésor	961 559				961 559	
	77 200 887	79 925 802	48 519 072	47 700 298	125 719 959	127 626 100
EXPENSES	77 955 311	81 610 314	47 842 079	46 602 950	125 797 390	128 213 264
	(754 424)	(1 684 512)	676 993	1 097 348	(77 431)	(587 164)
OTHER REVENUES						
(Note 5)	2 020 423	1 563 280	712 020	619 640	2 732 443	2 182 920
EXCESS (INSUFFICIENT) REVENUES OVER EXPENSES	\$1 265 999	\$(121 232)	\$1 389 013	\$1 716 988	\$2 655 012	\$1 595 756

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, 2006

	2006			2005		
	General reserve	Net assets invested in fixed assets	Total	General reserve	Net assets invested in fixed assets	Total
PREVIOUSLY ESTABLISHED OPENING BALANCE	\$7 569 588	\$1 109 040	\$8 678 628	\$5 757 732	\$1 325 140	\$7 082 872
Adjustment to previous fiscal years (Note 3)	(40 937 591)		(40 937 591)			
Credits granted by the Gouvernement du Québec to normalize the deficit (Note 3)	40 937 591		40 937 591			
ADJUSTED BALANCE	<u>7 569 588</u>	<u>1 109 040</u>	<u>8 678 628</u>	<u>5 757 732</u>	<u>1 325 140</u>	<u>7 082 872</u>
OPERATIONS						
Excess (insufficient) revenues over expenses before using the general reserve (Note 6)	3 504 971	(645 075)	2 859 896	941 006	(765 265)	175 741
Application to the general reserve (Note 7)	<u>(1 593 897)</u>		<u>(1 593 897)</u>	<u>(296 973)</u>		<u>(296 973)</u>
Net excess (insufficient) revenues over expenses	1 911 074	(645 075)	1 265 999	644 033	(765 265)	(121 232)
Investments in fixed assets:						
Application to the general reserve (Note 7)	(247 666)	247 666		(230 110)	230 110	
From operations for the fiscal year	(245 427)	245 427		(190 956)	190 956	
Instalments on capital lease contracts:						
From operations for the fiscal year	(126 035)	126 035		(128 099)	128 099	
Transfers to the Professional Liability Fund and Fire and Theft Fund	<u>(700 000)</u>		<u>(700 000)</u>			
	<u>591 946</u>	<u>(25 947)</u>	<u>565 999</u>	<u>94 868</u>	<u>(216 100)</u>	<u>(121 232)</u>
PRIVATE PRACTICE						
Excess revenues over expenses before using the general reserve	<u>1 389 013</u>		<u>1 389 013</u>	<u>1 716 988</u>		<u>1 716 988</u>
CLOSING 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>

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CHANGE IN CONSOLIDATED BALANCES OF THE PROFESSIONAL LIABILITY FUND
AND FIRE AND THEFT FUND
for the year ended March 31, 2006

	2006			2005
	Professional Liability Fund	Fire and Theft Fund	Total	Total
OPENING BALANCE	\$500 000	\$300 000	\$800 000	\$800 000
Transfer from the General Fund's general reserve	500 000	200 000	700 000	
CLOSING BALANCE	<u>\$1 000 000</u>	<u>\$500 000</u>	<u>\$1 500 000</u>	<u>\$800 000</u>

COMMISSION DES SERVICES JURIDIQUES

GENERAL FUND

CONSOLIDATED BALANCE SHEET
as at March 31, 2006

	General Fund	Professional Liability Fund	Fire and Theft Fund	2006	2005
ASSETS					
Current assets					
Cash on hand (Note 4)	\$11 150 811	\$5 507	\$2 753	\$11 159 071	\$11 934 437
Trust funds	395 318			395 318	511 817
Accounts receivable (Note 9)	45 748 917	394	197	45 749 508	12 658 094
Prepaid expenses	500 587			500 587	444 628
Advances on deferred salaries	96 229			96 229	52 964
Short-term investments (Note 10)		1 000 000	500 000	1 500 000	800 000
	<u>57 891 862</u>	<u>1 005 901</u>	<u>502 950</u>	<u>59 400 713</u>	<u>26 401 940</u>
Fixed assets (Note 11)	<u>1 957 493</u>			<u>1 957 493</u>	<u>2 340 452</u>
	<u><u>\$59 849 355</u></u>	<u><u>\$1 005 901</u></u>	<u><u>\$502 950</u></u>	<u><u>\$61 358 206</u></u>	<u><u>\$28 742 392</u></u>
LIABILITIES					
Current liabilities					
Accounts payable (Note 12)	\$47 867 932	\$5 901	\$2 950	\$47 876 783	\$15 349 277
Deferred salaries	159 515			159 515	127 075
Amounts collected in advance (Note 13)	313 868			313 868	2 550 224
Short-term portion of obligations under capital lease contracts (Note 15)	<u>108 556</u>			<u>108 556</u>	<u>140 877</u>
	<u>48 449 871</u>	<u>5 901</u>	<u>2 950</u>	<u>48 458 722</u>	<u>18 167 453</u>
Deferred special grants related to fixed assets (Note 14)	652 946			652 946	939 835
Obligations under capital lease contracts (Note 15)	<u>112 898</u>			<u>112 898</u>	<u>156 476</u>
	<u>49 215 715</u>	<u>5 901</u>	<u>2 950</u>	<u>49 224 566</u>	<u>19 263 764</u>
EQUITY					
Net assets invested in fixed assets	1 083 093			1 083 093	1 109 040
Net appropriated assets of internal origin	<u>9 550 547</u>	<u>1 000 000</u>	<u>500 000</u>	<u>11 050 547</u>	<u>8 369 588</u>
	<u>10 633 640</u>	<u>1 000 000</u>	<u>500 000</u>	<u>12 133 640</u>	<u>9 478 628</u>
	<u><u>\$59 849 355</u></u>	<u><u>\$1 005 901</u></u>	<u><u>\$502 950</u></u>	<u><u>\$61 358 206</u></u>	<u><u>\$28 742 392</u></u>

On behalf of the Commission des services juridiques,
 Denis Roy, Administrator
 Hélène Leduc, Administrator

COMMISSION DES SERVICES JURIDIQUES**GENERAL FUND****CONSOLIDATED CASH FLOW STATEMENT**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess (insufficient) revenues over expenses		
Operations	\$1 265 999	\$(121 232)
Private practice	<u>1 389 013</u>	<u>1 716 988</u>
	2 655 012	1 595 756
Depreciation of fixed assets	964 139	847 003
Amortization of deferred special grants related to fixed assets	(118 115)	(81 738)
Loss on disposal of fixed assets	3 093	
Change in non-cash working capital items (Note 8)		
Operations	(2 055 607)	(275 923)
Private practice	<u>(811 041)</u>	<u>347 353</u>
Cash flows related to operations	<u>637 481</u>	<u>2 432 451</u>
FINANCING ACTIVITIES		
Deferred special grants related to fixed assets	32 175	742 994
Instalment on obligations under capital lease contracts	<u>(126 035)</u>	<u>(128 099)</u>
Cash flows related to financing activities	<u>(93 860)</u>	<u>614 895</u>
INVESTING ACTIVITIES		
Amounts paid in trust	116 499	17 937
Acquisition of investments	(700 000)	
Acquisition of fixed assets	(535 387)	(1 164 810)
Transfer of fixed assets	<u>1 250</u>	<u>750</u>
Cash flows related to investing activities	<u>(1 117 638)</u>	<u>(1 146 123)</u>
NET VARIATION IN CASH ON HAND	(574 017)	1 901 223
CASH ON HAND, BEGINNING ON YEAR	<u>11 934 437</u>	<u>10 033 214</u>
CASH ON HAND, END O YEAR	<u><u>\$11 360 420</u></u>	<u><u>\$11 934 437</u></u>

Cash excludes amounts held in trust.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS as at March 31, 2006

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

The purpose of this fund is to pay settlements resulting from liability lawsuits involving the network's lawyers and the Commission's commissioners.

c) Fire and Theft Fund

The purpose of this fund is to pay costs related to fire or theft in the network's premises.

d) Net assets allocated for the general reserve

The general reserve set up by the Commission is used to carry out the Commission's obligations and commitments.

e) Accounting estimates

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The main elements estimated are the provisions for professional fees of private practices and contingencies. The real results may differ from these estimates.

f) Acknowledgement of proceeds

Regular Commission grants are posted to the results of the fiscal year whose charges they cover.

Special grants are posted to proceeds using the deferral method, which involves recording the proceeds in the books as the various charges are posted.

Special grants used to acquire fixed assets are deferred and amortized at the same rate as the said fixed assets.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

2. MAIN ACCOUNTING POLICIES (cont'd)

g) Private practice (Section 52)

Professional fees, legal fees and interest paid to private practice (Section 52) are recorded on an accrual basis and revenue is recorded according to amounts authorized by the Gouvernement du Québec.

h) Services for a fee

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) Fixed assets

Fixed assets are recorded at cost and amortized using the straight-line method as follows:

Computer and office automation equipment	3 years
Office furniture and equipment	5 years
Computer development	5 years

l) Fund transfers

Under the resolutions of the Commission, the reserve of the Fire and Theft Fund and the Professional Liability Fund must be \$500 000 (\$300 000 in 2005) and \$1 000 000 (\$500 000 in 2005) respectively. Any surplus or deficit of revenue over expenditure must be transferred to the General Fund.

m) Future fringe benefits

The employees of the Commission and the regional centres participate in one of the following defined-benefit plans administered by the Commission administrative des régimes de retraite et d'assurance (CARRA):

- Government and Public Employees Retirement Plan (RREGOP);
- Civil Service Superannuation Plan (CSSP);
- Pension Plan of Management Personnel (PPMP).

The Gouvernement du Québec is responsible for paying a portion or all of the benefits of these interentreprise retirement plans.

The Commission records the charges related to these retirement plans based on the amount of the contributions payable, which totalled \$2 903 146 for the fiscal year (\$2 022 792 for the previous fiscal year).

COMMISSION DES SERVICES JURIDIQUESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006**3. CHANGE IN ACCOUNTING POLICY**

In the previous fiscal year, the Commission retroactively adopted figures for the preceding fiscal year, the accrual basis of accounting to report the 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 of private practices of \$35 137 000; revenues from contributions of \$77 411; wage and fringe benefits expenses of \$792 386; and professional fees and disbursements of private practices of \$6 000 for the current fiscal year.

The cumulative effect of these adjustments on the opening balance of the general reserve totalled \$40 937 591 and received equivalent appropriations allocated by the Gouvernement du Québec during the fiscal year.

These grants receivable are presented 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 the source for a future paid sabbatical. The amounts deposited in trust for this purpose have been included with cash and total \$157 786 (\$139 761 in 2005).

5. OTHER REVENUES

	2006	2005
Operations		
Services for a fee ^a	\$794 741	\$808 477
Bill for expenses	28 508	29 376
Reimbursement of legal aid costs	386 663	342 143
Interest	454 466	256 189
Other	164 582	167 350
Gain on disposal of fixed assets	2 170	
Amortization of special deferred grants related to fixed assets	200 949	
Net expenditure of the Professional Liability Fund and the Fire and Theft Fund	(11 656)	(40 255)
	<u>\$2 020 423</u>	<u>\$1 563 280</u>
Private practice (Section 52)		
Contributions from beneficiaries	<u>\$712 020</u>	<u>\$619 640</u>

a Effective January 1, 1997, certain beneficiaries are eligible for services under the Legal Aid Act for a fee.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

5. OTHER REVENUES (cont'd)

Services for a fee

	2006	2005
Contributions from beneficiaries	\$535 050	\$551 693
Administrative expenses	256 050	251 759
Interest	3 641	5 025
	<u>\$794 741</u>	<u>\$808 477</u>

6. GENERAL RESERVE

Excess (insufficient) proceeds over charges for the fiscal year include \$332 627 (\$245 842 in 2005), which represents excess Gouvernement du Québec grants for court fees on invoicing of these fees.

7. APPLICATION OF THE GENERAL RESERVE

The charges and amounts invested in fixed assets for the year include the following amounts from the general reserve used via a resolution adopted by management:

	2006	2005
Cost of arbitration awards	\$1 204 670	
Computer master plan		
Computer equipment and software	182 774	\$231 463
Professional services	11 729	23 569
Other expenditure	9 700	12 550
Review of salaries for past years	185 024	29 391
Amounts posted to operating fees for the year	1 593 897	296 973
Amounts invested in fixed assets	247 666	230 110
	<u>\$1 841 563</u>	<u>\$527 083</u>

8. CASH FLOW INFORMATION

Changes in working capital elements are as follows:

	2006	2005
Operations		
Accounts receivable	\$2 039 986	\$(11 706 951)
Prepaid expenses	(55 959)	(94 867)
Advances on deferred salaries	(43 265)	(7 820)
Accounts payable	(2 569 768)	10 695 893
Deferred salaries	32 440	(101 569)
Amounts collected in advance	(1 459 041)	939 391
	<u>\$(2 055 607)</u>	<u>\$(275 923)</u>

COMMISSION DES SERVICES JURIDIQUESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006**8. CASH FLOW INFORMATION (cont'd)**

	2006	2005
Private practice		
Accounts receivable	\$(35 131 000)	\$415 975
Accounts payable	35 097 274	(92 815)
Amounts collected in advance	(777 315)	24 193
	<u>\$(811 041)</u>	<u>\$347 353</u>

Cash flows related to operations include interest paid in the amount of \$29 386 (\$36 475 in 2005).

9. ACCOUNTS RECEIVABLE

	2006	2005
Accrued interest	\$12 456	\$7 441
Advance to the Professional Liability Fund	5 901	20 594
Advance to the Fire and Theft Fund	2 951	13 224
Gouvernement du Québec grants		
Court fees		2 195 000
Operations	10 564 991	9 234 500
Special projects - one-time (Note 14)		1 156 353
Private practice	35 131 000	
Other	32 209	30 982
	<u>\$45 749 508</u>	<u>\$12 658 094</u>

10. SHORT-TERM INVESTMENTS

	2006	2005
Professional Liability Fund		
Deposit certificates at rate of 3.60% (2.40% in 2005), maturing in May 2006	<u>\$1 000 000</u>	<u>\$500 000</u>
Fire and Theft Fund		
Deposit certificates at rate of 3.60% (2.40% in 2005), maturing in May 2006	<u>\$500 000</u>	<u>\$300 000</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006**11. FIXED ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net value
FIXED ASSETS			
Computer and office automation equipment	\$4 072 888	\$2 982 556	\$1 090 332
Office furniture and equipment	1 385 905	723 673	662 232
	<u>5 458 793</u>	<u>3 706 229</u>	<u>1 752 564</u>
Fixed assets acquired under capital lease contracts			
Office furniture and equipment	788 346	583 417	204 929
Computer and office automation equipment	168 540	168 540	
	<u>956 886</u>	<u>751 957</u>	<u>204 929</u>
	<u>6 415 679</u>	<u>4 458 186</u>	<u>1 957 493</u>
INTANGIBLE ASSETS			
Computer development	639 283	639 283	
	<u>\$7 054 962</u>	<u>\$5 097 469</u>	<u>\$1 957 493</u>

12. ACCOUNTS PAYABLE

	2006	2005
Accounts payable and accruals	\$1 019 771	\$1 714 301
Accounts payable and accruals of private practice	35 137 000	
Advance from General Fund, interest-free	8 851	33 818
Salaries and source deductions	3 155 243	11 652 000
Accrued vacation time	6 462 032	
Gouvernement du Québec – special projects (Note 14)	231 514	
Court costs		
Operations	996 600	1 043 660
Private practice	865 772	905 498
	<u>\$47 876 783</u>	<u>\$15 349 277</u>

13. AMOUNTS COLLECTED IN ADVANCE

	2006	2005
Gouvernement du Québec grants – Operating		\$961 559
Services for a fee – permanence	\$124 836	622 318
Services for a fee – private practice	189 032	966 347
	<u>\$313 868</u>	<u>\$2 550 224</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

14. GRANTS FOR SPECIAL PROJECTS

The Commission received one-time subsidies to carry out special projects.

The amounts received were used as follows:

	2006	2005
Amounts granted at beginning	\$1 156 353	\$163 252
Amounts used to finance fees related to special projects in the year	2 971 480	3 930 307
Amounts used to acquire fixed assets	32 175	742 994
Amounts received	(4 391 522)	(3 680 200)
Amounts (payable) granted at end	<u>\$(231 514)</u>	<u>\$1 156 353</u>

Special projects related to fixed assets

	2006	2005
Deferred special grants related to fixed assets at beginning	\$939 835	\$278 579
Special grants used to acquire fixed assets	32 175	742 994
Amortization posted to proceeds for the year	(319 064)	(81 738)
	<u>\$652 946</u>	<u>\$939 835</u>

15. COMMITMENTS UNDER CAPITAL LEASES

	2006	2005
Commitments under capital leases		
maturing from 2006 to 2011	\$221 454	\$297 353
Current portion	108 556	140 877
	<u>\$112 898</u>	<u>\$156 476</u>

Amounts payable and balance of obligations are as follows:

	2006
2007	\$123 434
2008	65 508
2009	38 093
2010	19 384
2011	9 910
	<u>256 329</u>
Amount representing interest at rates varying from 6.75% to 15.79%	<u>34 875</u>
Balance of obligations	<u>\$221 454</u>

16. COMMITMENTS**Lease**

The Commission and the community legal centres are committed to leases for office space and equipment which call for lease payments of \$21 884 708. The minimum lease payments for the next five fiscal are as follows:

COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2006

16. COMMITMENTS (cont'd)

Lease (cont'd)

2007	\$6 038 586
2008	5 773 807
2009	4 984 908
2010	3 124 255
2011	1 489 231

17. CONTINGENCIES

- a) Proceedings have been instituted against some community legal centres and the Commission. Should the Commission be called upon to settle claims for amounts that are presently impossible to assess, the resulting loss would be recorded as period costs. This amount pertains to professional lawsuits for which a professional liability fund has been provided for in the financial statements.

Currently, the Professional Liability Fund presents a \$1 000 000 reserve. Given the risk of legal proceedings, the fund might post an insufficiency. However, management deems that these expenses would be funded from additional government grants.

- b) When the fiscal year was closing, talks were under way regarding renewal of two collective agreements that ended on June 30, 2003 and the wage equity file. At present, it is impossible to determine the amount to be paid retroactively. Charges related to these elements will be charged when known.

Management believe that these charges will be financed from additional government grants.

- c) At fiscal year-end, negotiations were under way regarding the agreement of rates for private practice, which had expired on April 1, 2005. Further, disputes are in arbitration regarding the application and interpretation of the Legal Aid Act. It is currently impossible to determine the amount that will be paid retroactively.

18. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission carried out the following operations with companies controlled by the Gouvernement du Québec. It posted rental payments of \$5 181 583 (\$4 993 074 in 2005) payable to the Société immobilière du Québec and court costs to the Minister of Finances du Québec for \$1 671 618 (\$1 723 835 in 2005), \$4 291 (\$6 792 in 2005) to the register fund, \$35 845 (\$39 767 in 2005) to the property information fund and \$150 619 (\$178 763 in 2005) to the director of civil status. A balance of \$1 862 372 (\$1 949 158 in 2005) for court fees was payable at March 31, 2006 and is disclosed in Note 12.

Further, the Commission received Gouvernement du Québec grants totalling \$77 105 100 (\$80 831 300 in 2005) for court operations and fees, and \$47 653 300 (\$46 794 800 in 2005) for private practice during the fiscal year.

These operations are measured at their 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, payables 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 is close to the book value because rates resembled market rates.

20. COMPARATIVE FIGURES

For comparison purposes, the figures for this fiscal year were reclassified.

COMMISSION DES SERVICES JURIDIQUESSTATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION
for the year ended March 31, 2006**EXPENSES**

	<u>2006</u>	<u>2005</u>
OPERATIONS		
Administration		
Rent, taxes and permits	\$6 207 337	\$5 924 054
Travelling expenses	1 017 243	963 721
Depreciation of fixed assets	846 024	765 265
Telecommunications	695 662	701 866
Professional services	650 002	651 636
Office supplies	562 905	557 281
Professional assessments	442 083	436 000
Library	413 653	435 652
Maintenance and repairs	383 665	371 959
Office furniture and equipment	341 049	500 806
Professional training	336 170	332 468
Postage	327 358	336 795
Other administrative expenses	313 274	281 139
Directors' meeting	102 964	100 056
Interest on obligations resulting from capital lease contracts	29 386	36 475
Information	14 930	15 338
Loss on disposal of fixed assets	5 263	
Electricity	3 224	3 383
	<u>12 692 192</u>	<u>12 413 894</u>
Salaries and fringe benefits		
Attorneys	39 796 549	45 302 721
Other	21 836 186	20 271 464
	<u>61 632 735</u>	<u>65 574 185</u>
Judicial fees		
Free services		
Civil	3 137 891	3 145 666
Criminal	382 496	364 266
	<u>3 520 387</u>	<u>3 509 932</u>
Services for a fee		
Civil	92 034	84 109
Criminal	17 963	28 194
	<u>109 997</u>	<u>112 303</u>
	<u>3 630 384</u>	<u>3 622 235</u>
Amounts carried forward	<u>\$77 955 311</u>	<u>\$81 610 314</u>

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2006**EXPENSES** (cont'd)

	2006	2005
Amounts brought forward	<u>\$77 955 311</u>	<u>\$81 610 314</u>
PRIVATE PRACTICE (Section 52)		
Free services		
Professional fees		
Civil	19 979 697	20 245 996
Criminal	19 585 796	17 949 509
Notarial	<u>73 600</u>	<u>161 985</u>
	39 639 093	38 357 490
Legal fees ¹		
Civil	4 585 298	4 887 128
Criminal	1 630 659	1 360 987
Notarial	<u>42 647</u>	<u>47 076</u>
	6 258 604	6 295 191
Other expenses	41 170	56 828
Interest	<u>4 672</u>	<u>3 241</u>
	45 842	60 069
	<u>45 943 539</u>	<u>44 712 750</u>
Services for a fee		
Professional fees		
Civil	1 233 656	1 247 602
Criminal	266 885	286 862
Notarial	<u>9 747</u>	<u>9 468</u>
	1 510 288	1 543 932
Legal fees ²		
Civil	324 041	299 439
Criminal	50 391	42 814
Notarial	<u>1 770</u>	<u>362</u>
	376 202	342 615
Other expenses	11 376	3 505
Interest	<u>674</u>	<u>148</u>
	12 050	3 653
	<u>1 898 540</u>	<u>1 890 200</u>
	<u>47 842 079</u>	<u>46 602 950</u>
	<u>\$125 797 390</u>	<u>\$128 213 264</u>

1 Includes legal fees in the amount of \$4 774 418 (2005: \$4 778 213) and other fees in the amount of \$1 484 186 (2005: \$1 372 406).

2 Includes legal fees in the amount of \$310 678 (2005: \$311 084) and other fees in the amount of \$65 524 (2005: \$69 645).

COMMISSION DES SERVICES JURIDIQUESSTATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2006**CONSOLIDATED RESULTS – SPECIAL PROJECTS**

	2006	2005
REVENUES (Note 14)		
Special grants – charges	\$2 971 480	\$3 930 307
Amortization of deferred special grants for fixed assets	118 115	81 738
Self-generated revenue	3 610	568
	<u>3 093 205</u>	<u>4 012 613</u>
EXPENSES		
Administration		
Depreciation of fixed assets	118 115	81 738
Rent, taxes and permits	113 124	134 723
Travelling expenses	57 658	89 569
Telecommunications	50 840	51 990
Office furniture and equipment	45 068	219 154
Office supplies	37 683	44 079
Professional assessments	30 180	36 956
Maintenance and repairs	26 206	32 555
Professional services	15 951	11 219
Library	14 674	16 421
Other administrative expenses	14 242	21 396
Professional training	7 068	33 969
Postage	4 265	10 599
Information		3 983
	<u>535 074</u>	<u>788 351</u>
Salaries and fringe benefits		
Attorneys	1 983 065	2 431 444
Other	567 349	776 077
	<u>2 550 414</u>	<u>3 207 521</u>
Legal disbursements		
Free services		
Civil	459	2 985
Criminal	7 258	13 756
	<u>7 717</u>	<u>16 741</u>
	<u>3 093 205</u>	<u>4 012 613</u>
EXCESS REVENUES OVER EXPENSES		

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, 2006 and the consolidated statements of results, change in net assets and cash flow of the General Fund, and the consolidated statement of changes in the balance of the Professional Liability Fund and the Fire and Theft Fund for the year then ended. These financial statements are the responsibility of Commission management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the Commission's 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 the auditing standards that are generally accepted in Canada.

Harel Drouin – PKF, S.E.N.C.R.L.
Chartered Accountants

Montréal, May 25, 2006

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE
(R.S.Q., c. A-29.011)

REVENUES, EXPENSES AND SURPLUS
for the year ended December 31, 2005

	2005 (Note 1)
REVENUES	
Contribution from the Parental Insurance Fund (Note 1)	\$1 291 294
Gouvernement du Québec – Compensatory reimbursement related to the provision for sick leave and vacation time	113 545
Interest income	3 425
	<u>1 408 264</u>
EXPENSES	
Administrative expenses (Note 3)	1 192 788
Expenses related to collection of contributions by Revenu Québec (Note 4)	215 476
	<u>1 408 264</u>
SURPLUS REVENUES OVER EXPENSES AND SURPLUS AT THE END	<u></u>

The notes are an integral part of these financial statements.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

BALANCE SHEET
as at December 31, 2005

	2005 (Note 1)
ASSETS	
Current assets	
Cash on hand	\$4 486 158
Accounts receivable (Note 5)	116 970
	<u>4 603 128</u>
Fixed assets (Note 6)	108 061
Tangible assets (Note 7)	10 286 848
Start-up costs (Note 8)	<u>4 901 195</u>
	<u><u>\$19 899 232</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accruals (Note 9)	\$3 990 704
Parental Insurance Fund advance, interest-free, no terms of repayment	3 708 706
Gouvernement du Québec advance bearing interest at the prime rate, no terms of repayment	1 682 942
Provision for vacation time (Note 10)	66 226
Portion of the long-term debt maturing in the short term (Note 11)	<u>2 752 878</u>
	12 201 456
Provision for sick leave (Note 10)	163 806
Long-term debt (Note 11)	<u>7 533 970</u>
	<u><u>\$19 899 232</u></u>

COMMITMENTS (Note 14)

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**CASH FLOW**
for the year ended December 31, 2005

	<u>2005</u> (Note 1)
OPERATING ACTIVITIES	
Element not affecting cash flow:	
Amortization of fixed assets	\$6 833
Change in non-cash elements related to operations (Note 12)	<u>553 844</u>
Cash flows provided by operating activities	<u>560 677</u>
INVESTMENT ACTIVITIES	
Acquisition of fixed assets	(52 794)
Increase in start-up costs	<u>(513 942)</u>
Cash flows used for investment activities	<u>(566 736)</u>
FINANCING ACTIVITIES	
Cash flows provided by financing activities: net variation in advances	<u>4 492 217</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$4 486 158</u></u>

The notes are an integral part of these financial statements.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

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 came into effect on January 1, 2006.

Purpose

The purpose of the plan is to provide financial support to employees and self-employed workers to enable them to recover physically from childbirth and to allow them to care for their newborn or adopted child. It is designed to grant maternity, paternity and parental benefits when a child is born or adoption benefits.

The Conseil is the trustee of the Funds, a social utility trust set up on June 17, 2005 whose asset base is essentially used to pay benefits to which anyone eligible under the Act respecting parental insurance is entitled.

In keeping with section 115.10 of the Act respecting parental insurance, expenses related to Fund administration and expenses incurred by the Conseil to enforce this legislation are charged to the Fund, with the exception of expenses paid on amounts that the Conseil holds in deposit other than as a trustee.

Plan administration was entrusted to the Minister of Employment and Social Solidarity, in keeping with section 80 of its incorporating Act.

Financing

The Conseil's main source of funding consists of contributions to the Fund from contributions collected under the Act respecting parental insurance to finance the Plan. Amounts available to the Conseil must be used solely for the application of its incorporating Act and to pay its obligations.

Collection of Plan contributions was entrusted to the Minister of Revenue under section 79 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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.

Fixed assets

Fixed assets are recorded at cost. Amortization is calculated using the straight-line method based on the probable duration of use at the following annual rates:

Office furniture and equipment	20.00%
Leasehold improvements	20.00%
Data processing equipment	33.33%

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

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

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

Intangible assets, representing costs linked to computer development, are recorded at cost and amortized according to the probable duration of use using the straight-line method at the annual rate of 20%.

Implementation costs

Implementation costs represent the costs inherent in the staff members deployed and work done to prepare and implement the Plan. In addition to direct costs, they include interest payments and a share in the general and administrative costs. These implementation costs will be amortized using the straight-line method over a five-year period beginning January 1, 2006, the date Plan activities began.

Pension plans

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

3. ADMINISTRATIVE EXPENSES

	<u>2005</u>
Salaries and fringe benefits	\$668 740
Salaries and fringe benefits related to provisions for sick leave and vacation time following the arrival of employees	199 062
Support and administrative services of the Ministère de l'Emploi et de la Solidarité sociale	141 525
Professional services	49 011
Travelling expenses	10 796
Rent	31 005
Materials, supplies and courier services	28 448
Telephone and internet	17 067
Maintenance and repairs	3 510
Amortization of fixed assets	6 833
Interest and bank charges	21 099
Other	15 692
	<u>\$1 192 788</u>

4. COSTS RELATED TO CONTRIBUTION COLLECTION BY REVENU QUÉBEC

In keeping with the Act respecting parental insurance, Revenu Québec is the organization responsible for collecting contributions for the Plan. In the context of this mandate, it holds back administrative costs and other expenses related to receivables from contributions remitted to the Conseil. These costs are determined by Order-in-Council based on expenses actually incurred by Revenu Québec.

The costs related to collecting contributions posted to the results for the fiscal year totalled \$215 476 and comprise only administrative expenses.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

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

5. ACCOUNTS RECEIVABLE

	2005
Accrued interest	\$3 425
Gouvernement du Québec	113 545
	<u>\$116 970</u>

6. FIXED ASSETS

	2005	
	Cost	Accumulated depreciation
Office furniture and equipment	\$29 497	\$2 950
Leasehold improvement	62 100	62 100
Data processing equipment	23 297	3 883
	<u>\$114 894</u>	<u>\$6 833</u>
		<u>\$108 061</u>

Leasehold improvements are not amortized because work was not finished at fiscal year-end.

7. INTANGIBLE ASSETS

	2005	
	Cost	Accumulated depreciation
Computer development (under way) (Note 14)	<u>\$10 286 848</u>	<u>\$10 286 848</u>

Computer development under way was incurred vis-à-vis the Ministère de l'Emploi et de la Solidarité sociale and is not amortized since work was not finished at fiscal year-end. The interest capitalized for computer development under way during the fiscal year totalled \$186 981.

8. IMPLEMENTATION COSTS

	2005	
	Cost	Accumulated depreciation
Implementation costs	<u>\$4 901 195</u>	<u>\$4 901 195</u>

Implementation costs were incurred vis-à-vis the Ministère de l'Emploi et de la Solidarité sociale and Revenu Québec for amounts of \$3 966 414 and \$934 781 respectively.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

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

9. ACCOUNTS PAYABLE AND ACCRUALS

	2005
Suppliers and accruals	\$163 696
Ministère de l'Emploi et de la Solidarité sociale	3 190 693
Revenu Québec	636 315
	<u>\$3 990 704</u>

10. FUTURE FRINGE BENEFITS

Pension plans

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

The Conseil's contributions charged to the year-end statement amount to \$28 440. The Conseil's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2005	
	Sick leave	Vacation time
Fiscal year's expenditures		Total
Increase due to arrival of employees	\$152 341	\$46 721
Increase attributable to fiscal year	15 000	53 704
Use in fiscal year	(3 535)	(34 199)
	<u>\$163 806</u>	<u>\$230 032</u>

11. LONG-TERM DEBT

	2005
Ministère de l'Emploi et de la Solidarité sociale information technologies fund (Note 14)	
On computer developments under way, 4%, repayable in an initial payment of \$2 752 878 in April 2006, followed by four subsequent payments as of April 1, 2007, comprising capital only	\$10 286 848
Portion of long-term debt maturing in the short term	<u>2 752 878</u>
	<u>\$7 533 970</u>

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

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

11. LONG-TERM DEBT (cont'd)

The capital payable on the long-term debt for each of the next five fiscal years is:

2006	\$2 752 878
2007	2 157 475
2008	2 032 343
2009	1 907 211
2010	1 436 941

12. CASH FLOWS

	2005
Change in non-cash elements related to operations	
Accounts receivable	\$(116 970)
Accounts payable and accruals	440 782
Provision for vacation time	66 226
Provision for sick leave	163 806
	<u>\$553 844</u>

13. 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 are similar to those of the Conseil. The fair value of the long-term debt is equivalent to the book value, given that the debt was contracted during the fiscal year.

Interest rate-related risk

The Conseil is exposed to an interest rate-related risk linked to rate fluctuations on the market, which could impact on cash flows by increasing or decreasing the contribution to payment of interest.

14. COMMITMENTS

MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE (MESS)

Plan administration

Under section 81 of the Act respecting parental insurance, the Conseil concluded an agreement with the MESS 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 latter. This agreement is valid for one year and runs from January 1, 2006 to March 31, 2007. At term, the agreement becomes renewable annually. Costs payable over the next two fiscal years are estimated at:

2006	\$10 100 000
2007	2 377 000

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

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

14. COMMITMENTS (cont'd)

MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE (MESS) (cont'd)

Administrative support and consulting services

Under section 82 of the Act respecting parental insurance, the Conseil concluded an agreement with MESS for administrative support and consulting services. This agreement is valid for one year from January 1, 2006 to March 31, 2008. At term, the agreement becomes renewable for three-year period. Costs payable over the next three fiscal years are:

2006	\$212 200
2007	215 300
2008	54 000

Information technologies fund (ITF)

In keeping with a long-term agreement whose terms and conditions will be defined with the ITF, the Conseil committed to paying all expenses incurred by the ITF for computer systems development to carry out Plan administrative activities. According to the ITF, total expenses once work for 2006 has been completed are estimated at \$22.7 million, \$10.3 million of which had been incurred at December 31, 2005 and recorded in the financial statements. Payments related to this agreement will run from April 2006 to April 2010.

REVENU QUÉBEC

Cost of using systems linked 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, 2005, the costs incurred by Revenu Québec totalled approximately \$611 000.

Public administration observatory

Under service agreements, the Conseil committed to paying an amount estimated at \$28 500 in fiscal 2006.

15. RELATED PARTY TRANSACTIONS

The Conseil is a related party, in the capacity of trustee, to the Parental Insurance Fund 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 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 Conseil de gestion de l'assurance parentale (Conseil) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors is responsible for overseeing the manner in which management carried out its duties in reporting financial information and it approved the financial statements. The planning and auditing committee assists the board of directors in this task. This committee meets with management and the auditor-general, examines the financial statements and recommends approval by the board.

The Auditor General of Québec has audited the Conseil's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the 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, March 24, 2006

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Conseil de gestion de l'assurance parentale as at March 31, 2005 and the revenues, expenses and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Conseil management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

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

Renaud Lachance, CA
Auditor General of Québec

Québec, March 24, 2006

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC
(R.S.Q., c. C-57.02)

INCOME STATEMENT
for the year ended March 31, 2006

	2006	2005
REVENUES		
Gouvernement du Québec subsidies		
Financial assistance	\$67 147 448	\$68 082 006
Administration fees	5 704 137	5 522 713
	<u>72 851 585</u>	<u>73 604 719</u>
Interest on short-term investments	638 705	501 438
	<u>73 490 290</u>	<u>74 106 157</u>
EXPENSES		
Financial assistance granted		
Theatre	20 882 655	21 538 033
Circus arts	780 100	723 485
Music	19 555 326	20 554 240
Visual and media arts	11 968 407	11 801 638
Dance	8 930 274	8 911 979
Literature	3 080 856	3 119 303
Multidisciplinary arts	1 282 377	1 251 815
Other activities	779 879	814 184
	<u>67 259 874</u>	<u>68 714 677</u>
Cancellation of financial assistance granted in previous years	(160 000)	(199 941)
	<u>67 099 874</u>	<u>68 514 736</u>
Interest on long-term debt	49 460	75 868
Administrative expenses (Note 3)	6 160 585	5 481 733
	<u>73 309 919</u>	<u>74 072 337</u>
EXCESS REVENUES OVER EXPENSES	<u>\$180 371</u>	<u>\$33 820</u>

The notes are an integral part of these financial statements.

SURPLUS STATEMENT
for the year ended March 31, 2006

	2006	2005
SURPLUS, BEGINNING OF YEAR	\$95 577	\$61 757
Excess revenues over expenses	180 371	33 820
SURPLUS, END OF YEAR	<u>\$275 948</u>	<u>\$95 577</u>

The notes are an integral part of these financial statements.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 166 894	\$708 349
Short-term investments at 3.81%, maturing May 1, 2006	2 991 605	2 993 910
Accounts receivable	9 352	16 460
Gouvernement du Québec subsidies receivable	1 864 731	1 633 519
Prepaid expenses	29 878	64 731
	<u>6 062 460</u>	<u>5 416 969</u>
Gouvernement du Québec subsidies receivable	400 000	800 000
Fixed assets (Note 4)	93 085	165 539
Intangible assets (Note 5)	<u>78 939</u>	<u>88 022</u>
	<u><u>\$6 634 484</u></u>	<u><u>\$6 470 530</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$339 361	\$313 700
Financial assistance payable	3 283 830	3 522 125
Deferred subsidies	927 000	316 587
Portion of long-term debt maturing in the short term	428 610	465 508
	<u>4 978 801</u>	<u>4 617 920</u>
Long-term debt (Note 7)	400 000	828 610
Provision for sick leave and vacation time (Note 8)	<u>979 735</u>	<u>928 423</u>
	<u>6 358 536</u>	<u>6 374 953</u>
SURPLUS	<u>275 948</u>	<u>95 577</u>
	<u><u>\$6 634 484</u></u>	<u><u>\$6 470 530</u></u>

TRUST FUNDS (Note 10)

COMMITMENTS (Note 13)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Suzanne Masson
Yvan Gauthier

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

CASH FLOW STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Receipts:		
Government subsidies	\$73 630 786	\$73 635 913
Interest received	639 752	499 722
Disbursements:		
Financial assistance granted	(67 338 169)	(67 550 581)
Suppliers and staff members	(5 868 021)	(5 934 796)
Interest paid	<u>(60 613)</u>	<u>(86 997)</u>
Net receipts for operating activities	<u>1 003 735</u>	<u>563 261</u>
INVESTMENT ACTIVITIES		
Disbursements for investment activities:		
Acquisition of fixed assets	<u>(81 987)</u>	<u>(98 941)</u>
FINANCING ACTIVITIES		
Disbursements for financing activities:		
Repayment of long-term debt	<u>(465 508)</u>	<u>(461 287)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	456 240	3 033
CASH AND CASH EQUIVALENTS		
– BEGINNING OF YEAR	<u>3 702 259</u>	<u>3 699 226</u>
CASH AND CASH EQUIVALENTS		
– END OF YEAR (Note 9)	<u>\$4 158 499</u>	<u>\$3 702 259</u>

The notes are an integral part of these financial statements.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

1. CONSTITUTION AND PURPOSE

The Conseil is a corporation established under the Act respecting the Conseil des arts et des lettres du Québec (R.S.Q., c. C-57.02). It is competent to act in the fields of visual arts, arts and crafts, literature, performing arts, multidisciplinary arts, media arts and in matters of architectural research. The goal of the Conseil is to support creation, experimentation and production in all regions of Québec and to foster the diffusion thereof in Québec and, in compliance with Québec's policies in matters of Canadian intergovernmental affairs and international affairs, elsewhere in Canada and abroad. A further goal of the Conseil is to support artists in the development of their craft. Under section 984 of the Québec Taxation Act and section 149 of the Canadian Income Tax Act, the Conseil is not subject to income tax.

The Conseil administers the following trust funds: "Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière".

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 record contributions.

Cash and cash equivalents

The Conseil's policy consists in presenting under cash and cash equivalents bank balances and investments that are convertible in the short term into a known amount of cash whose value is unlikely to change significantly.

Short-term investment

Short-term investments are recorded at lesser value (cost – net realization value).

Pension plans

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

Fixed assets

Fixed assets are recorded at cost and amortized using the straight-line method over the estimated service life, namely:

Furniture and audiovisual equipment	5 years
Computer equipment and development	3 years
Leasehold improvements	Term of lease

The Conseil regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the 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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets, comprising computer and software development, are recorded at cost and amortized based on the probable length of their use, i.e. 3 years, according to the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that their book value may not be recovered.

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

Financial assistance granted

The financial assistance granted is recorded when authorized and when the beneficiary meets the eligibility criteria.

Recording Gouvernement du Québec subsidies

The subsidies allocated are reported and recorded as revenue for the fiscal year in which the related expenditure occurs. Unappropriated subsidies are recorded as revenue for the fiscal year.

Gouvernement du Québec subsidies receivable are recorded in the fiscal year in which the Conseil obtained the funding or carried out the work entitling it to these subsidies.

Investment income

Investment operations are recorded at the date of the transaction and the resulting revenues were reported using the accrual method. Interest income is recorded based on the number of days the investment was held in the fiscal year.

3. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$4 569 389	\$4 135 340
Professional, administrative, and other services	292 091	198 080
Transportation and communications	496 805	378 479
Rent	524 608	508 731
Materials and supplies	101 257	82 652
Maintenance and repairs	12 911	11 772
Amortization of fixed assets	103 341	106 836
Amortization of intangible assets	60 183	59 843
	<u>\$6 160 585</u>	<u>\$5 481 733</u>

4. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Furniture	\$36 261	\$26 894	\$9 367	\$9 771
Audiovisual equipment	33 568	7 613	25 955	12 192
Computer equipment	199 088	166 133	32 955	59 226
Leasehold improvements	360 355	335 547	24 808	84 350
	<u>\$629 272</u>	<u>\$536 187</u>	<u>\$93 085</u>	<u>\$165 539</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. INTANGIBLE ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net
Computer and software development	<u>\$318 352</u>	<u>\$239 413</u>	<u>\$88 022</u>

6. BANK BORROWING

Under borrowing O.C. 697-2004, dated June 30, 2004, the Conseil is authorized to contract short-term borrowings up to a total of \$1 000 000, by June 30, 2007, from financial institutions or the Gouvernement du Québec's Financing Fund. At March 31, 2005 and March 31, 2006, no bank borrowing had been contracted.

7. LONG-TERM DEBT

	2006	2005
Borrowing from the Société immobilière du Québec, 6.68%, repayable in monthly instalments of \$5 818, maturing in August 2006	\$28 610	\$94 118
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>800 000</u> 828 610	<u>1 200 000</u> 1 294 118
Less: Payments within one year	<u>428 610</u>	<u>465 508</u>
	<u>\$400 000</u>	<u>\$828 610</u>

The capital payments to be made over the next two fiscal years are as follows:

2007	\$428 610
2008	400 000

8. FUTURE FRINGE BENEFITS**Pension plans**

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

The Conseil's contributions charged to the year-end statement amount to \$209 402 (2005: \$152 272). The Conseil's liability towards these Government plans is restricted to its contributions as an employer.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

	2006		2005
	Sick leave	Vacation time	Total
Opening balance	\$509 706	\$418 717	\$928 423
Charges for the year	145 034	359 049	504 083
Benefits paid during the year	(138 147)	(314 624)	(452 771)
Closing balance	<u>\$516 593</u>	<u>\$463 142</u>	<u>\$979 735</u>
			<u>\$928 423</u>

9. CASH FLOWS

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

	2006	2005
Cash on hand	\$1 166 894	\$708 349
Short-term investments	<u>2 991 605</u>	<u>2 993 910</u>
	<u>\$4 158 499</u>	<u>\$3 702 259</u>

10. TRUST FUNDS**Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent**

The agreement signed in December 2002 by the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil régional de la Culture du Bas-Saint-Laurent (CRC), whose property and assets, rights and obligations were transferred in the previous fiscal year to the Conférence régionale des élus du Bas-Saint-Laurent, expired on March 31, 2005.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Bas-Saint-Laurent according to the terms, conditions and procedures in effect. Under an addendum to the agreement, signed in November 2005, the Conférence régionale des élus du Bas-Saint-Laurent committed to paying \$50 000 into a trust fund, under the regional development fund, for the fiscal year ended March 31, 2006. In the coming year, the Conseil and the Conférence régionale des élus du Bas-Saint-Laurent will complete the administrative work needed to renew the agreement. The Conseil and the Conférence régionale des élus du Bas-Saint-Laurent will agree on the use of the amounts available as well as the interest generated by the Fund.

Balance Sheet

as at March 31, 2006

	2006	2005
Assets		
Cash on hand	\$1 128	\$2 792
Accrued interest	150	83
Receivable from the Conseil		543
Contribution receivable		<u>10 880</u>
	<u>\$1 278</u>	<u>\$14 298</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. TRUST FUNDS (cont'd)**Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent (cont'd)****Balance Sheet**

as at March 31, 2006

	2006	2005
Liabilities		
Financial assistance payable		\$13 634
Fund balance	\$1 278	664
	<u>\$1 278</u>	<u>\$14 298</u>

Changes in Fund balance

for the year ended March 31, 2006

	2006	2005
Opening Fund balance	\$664	\$546
Increase		
Contributions	50 000	60 880
Interest	614	118
	<u>51 278</u>	<u>61 544</u>
Decrease		
Contributions granted	50 000	60 880
Closing Fund balance	<u>\$1 278</u>	<u>\$664</u>

Trust Fund – Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie

The agreement signed in December 2001 by the Conseil and the Conseil régional de développement de la Mauricie, expired on March 31, 2004.

The Conseil acted as trustee of the amounts deposited in this Fund. Under a new agreement, signed on November 2, 2004 by the Conseil and the Conférence régionale des élus de la Mauricie and new provisions regarding the payment of financial assistance by the Conférence, in June 2005, the Conseil closed the bank account and transferred the fund's management to the Conférence régionale des élus de la Mauricie. The interest balance owing of \$490 was paid to the Conférence régionale des élus de la Mauricie.

Balance Sheet

as at March 31, 2006

	2006	2005
Assets		
Cash on hand		\$486
Accrued interest		1
		<u>\$487</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie (cont'd)****Balance Sheet (cont'd)**
as at March 31, 2006

	2006	2005
Liabilities		
Financial assistance payable		
Fund balance		\$487
		\$487

Changes in Fund balance
for the year ended March 31, 2006

	2006	2005
Opening Fund balance	\$487	\$477
Increase		
Contributions		
Interest	3	10
	490	487
Decrease		
Contributions granted		
Fund balance remitted to the Conseil regional des élus de la Mauricie	490	
Closing Fund balance		\$487

Trust Fund – Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine

The agreement, signed in March 2003 by the Conseil and the Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine, whose property and assets, rights and obligations were transferred to the Conférence régionale des élus de la Gaspésie – Îles de-la-Madeleine in the previous fiscal year, expired on March 31, 2005.

The Conseil acted as a trustee for the amounts deposited in this Fund. Under a new agreement signed on December 16, 2005 by the Conseil and the Conférence régionale des élus de la Gaspésie – Îles-de-la-Madeleine, and new provisions governing the payment of financial assistance by the Conférence, in March 2006, the Conseil closed the bank account and transferred management of the Fund to Conférence régionale des élus de la Gaspésie – Îles-de-la-Madeleine. The \$245 interest balance was paid to the Conférence régionale des élus de la Gaspésie – Îles-de-la-Madeleine.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine (cont'd)****Balance Sheet**

as at March 31, 2006

	2006	2005
Assets		
Cash on hand		\$239
Accrued interest		1
		<u>\$240</u>
Liabilities		
Financial assistance payable		\$240
Fund balance		<u>\$240</u>

Changes in Fund balance

for the year ended March 31, 2006

	2006	2005
Opening Fund balance	\$240	\$161
Increase		
Contribution		
Interest	5	178
	<u>245</u>	<u>339</u>
Decrease		
Contribution granted		
Fund balance remitted to the Conseil regional des élus de la Gaspésie-Îles-de-la-Madeleine	245	99
Closing Fund balance	<u>240</u>	<u>\$240</u>

Trust Fund – Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière

The agreement, signed in March 2003 by the Conseil and the Conseil régional de développement de Lanaudière, whose property and assets, rights and obligations were transferred to the Conférence régionale des élus de Lanaudière, expired on March 31, 2005.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Lanaudière according to the terms, conditions and procedures in effect. Under an addendum to the agreement, signed in February 2006, the Conférence régionale des élus de Lanaudière committed to paying \$30 000 into a trust fund, under a regional development fund, for the fiscal year ended March 31, 2006. In the coming year, the Conseil et la Conférence régionale des élus de Lanaudière will complete the administrative work required to renew the agreement, if applicable. The Conseil and the Conférence régionale des élus de la Lanaudière will agree on how to use the amounts available and the interest generated by the Fund.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. TRUST FUNDS (cont'd)

Trust Fund – Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière (cont'd)

Balance Sheet

as at March 31, 2006

	2006	2005
Assets		
Cash on hand	\$35	\$27
Accrued interest	46	
Contribution receivable		61 543
	<u>\$81</u>	<u>\$61 570</u>
Liabilities		
Financial assistance payable		\$61 543
Fund balance	<u>\$81</u>	<u>27</u>
	<u>\$81</u>	<u>\$61 570</u>

Changes in Fund balance

for the year ended March 31, 2006

	2006	2005
Opening Fund balance	\$27	\$78
Increase		
Contribution	30 000	61 543
Interest	54	48
	<u>30 081</u>	<u>61 669</u>
Decrease		
Contribution granted	30 000	61 543
Other operating costs		99
	<u>\$81</u>	<u>\$27</u>
Closing Fund balance	<u>\$81</u>	<u>\$27</u>

11. FINANCIAL INSTRUMENTS

Fair value

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

The fair value of the long-term debt is determined by capitalizing future cash flows to capitalization rates representing those the Conseil might select the date of the financial statement for borrowing with similar conditions and maturity dates.

The fair value of the \$2 264 731 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 QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. FINANCIAL INSTRUMENTS (cont'd)****Fair value (cont'd)**

The following table shows the book value and the fair value of the financial instruments:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Financial liabilities				
Long-term debt				
Long-term borrowing - Société immobilière du Québec	\$28 610	\$28 863	\$94 118	\$95 882
Long-term borrowing – Financing Fund note	800 000	829 818	1 200 000	1 261 690

12. RELATED PARTY TRANSACTIONS

Some members of the board of directors belong to 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. These subsidies total \$1 129 945.

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

13. COMMITMENTS

At March 31, 2006, the commitments slated for the financial support of arts organizations having signed a contract with the Conseil, break down as follows:

2007	\$2 512 237
2008	2 554 237
	<u>\$5 066 474</u>

14. COMPARATIVES FIGURES

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

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 drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management employees. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Yvan Gauthier
President and Chief Executive Officer

Québec, June 2, 2006

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, 2006 and the income, surplus and cash flow statements for the year then ended. I have also audited the balance sheets of the "Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière" trust funds, which are administered by the Conseil, as at March 31, 2006, and the statements of changes in fund balance for the year then ended. The financial statements for these funds are disclosed in Note 10. These financial statements are the responsibility of Conseil management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Conseil's financial position and that of its trust funds as at March 31, 2006 and the results of their operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 2, 2006

CORPORATION D'HÉBERGEMENT DU QUÉBEC
(R.S.Q., c. C-68.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
INCOME		
Income from interest	103 279	105 325
Financial management fees	152	291
Rental income:		
Health network (Note 3)	150 044	125 529
Others – net (Note 4)	1 226	139
Management fees on mandated projects	2 652	3 449
Consulting fees	827	120
Subsidy from the Government of Canada (Note 5)	85	93
Profit from the disposal of fixed capital assets and properties intended for sale	48	484
Depreciation of deferred contributions	3 313	28 153
Income from withdrawn projects under consideration	106	987
Other	572	29
	<u>262 304</u>	<u>264 599</u>
EXPENSES		
Financial costs – net (Note 6)	186 129	181 635
Depreciation (Note 7)	54 528	50 743
General and administrative expenses (Note 8)	8 899	7 809
Consulting costs	807	144
Costs for withdrawn projects under consideration	106	987
Network building information system	237	1 334
Other expenses		283
Client rebates (Note 9)	1 504	3 539
	<u>252 210</u>	<u>246 474</u>
NET PROFIT	<u>10 094</u>	<u>18 125</u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF RETAINED EARNINGS
 for the year ended March 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	131 523	113 398
Net profit	<u>10 094</u>	<u>18 125</u>
CLOSING BALANCE	<u><u>141 617</u></u>	<u><u>131 523</u></u>

The notes form an integral part of the financial statements.

STATEMENT OF SURPLUS
 for the year ended March 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	11 600	7 591
Surplus of the fair value over the cost of land acquired for minor or zero consideration	<u>1 450</u>	<u>4 009</u>
CLOSING BALANCE	<u><u>13 050</u></u>	<u><u>11 600</u></u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

BALANCE SHEET
as at March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Temporary investments (Note 10)	2 434	2 486
Accounts receivable (Note 11)	24 506	29 347
Subsidies receivable from the Gouvernement du Québec		987
Rents receivable (Note 12)	10 021	11 104
Loans (Note 13)	1 692 515	1 926 698
Receivables – mandated projects (Note 14)	581 699	506 336
Fixed capital assets (Note 15)	1 851 425	1 814 190
Properties intended for sale (Note 16)	819	880
Projects under consideration	33 170	25 499
Other asset elements (Note 17)	33 874	33 667
	<u>4 230 463</u>	<u>4 351 194</u>
LIABILITIES		
Outstanding cheques less cash reserve	1 858	9 930
Accounts and contract holdbacks payable	34 291	47 305
Accrued interest (Note 18)	47 897	57 552
Short-term loans (Note 19)	2 064 347	2 043 304
Long-term debt (Note 20)	1 781 764	1 928 319
Other liability elements (Note 21)	135 639	111 661
	<u>4 065 796</u>	<u>4 198 071</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 22)	10 000	10 000
Contributed surplus	13 050	11 600
Retained earnings	141 617	131 523
	<u>164 667</u>	<u>153 123</u>
	<u>4 230 463</u>	<u>4 351 194</u>

The notes form an integral part of the financial statements.

COMMITMENTS AND CONTINGENCIES (Note 25)

For the board of directors,
Michel L. Lesage, Chairman
Claude Desjardins, Vice-Chairman

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit	10 094	18 125
Elements with no impact on cash and cash equivalents		
Profit from disposal of properties intended for sale	(48)	(484)
Interest on irregular coupon bonds	7 161	9 873
Interest income chargeable to loan balances and mandated projects	(47 504)	(34 273)
Interest chargeable to fixed capital assets and projects under consideration	(3 364)	(3 459)
Management fees chargeable to mandated projects	(2 805)	(3 661)
Management fees chargeable to fixed capital assets and projects under consideration	(1 701)	(1 677)
Client rebates	1 504	3 539
Depreciation		
Fixed capital assets	53 558	49 846
Other asset elements	2 472	2 285
Other liabilities	(3 313)	(28 153)
Net variations in assets and liabilities related to operations		
Accounts receivable	12 545	(3 745)
Rents receivable	1 083	1 302
Accounts and contract holdbacks payable	(2 877)	(4 710)
Accrued interest	(9 656)	(8 135)
	<u>17 149</u>	<u>(3 327)</u>
CASH FLOW FROM INVESTMENT ACTIVITIES		
Receipts from loans	909 025	597 971
Outgoings on loans	(639 944)	(659 013)
Receipts from receivables – mandated projects	116 078	98 275
Outgoings on receivables – mandated projects	(171 005)	(211 697)
Cash accounts receivable from the Gouvernement du Québec related to the long-term debt	5 840	24 460
Outgoings on accounts receivable from the Gouvernement du Québec related to the long-term debt	(4 486)	(6 973)
Acquisition of fixed capital assets	(87 374)	(97 839)
Product from disposal of fixed capital assets	52	
Acquisition of properties intended for sale	(16)	
Product from disposal of properties intended for sale	77	848
Income from projects under consideration	1 023	24
Outgoings on projects under consideration	(13 188)	(13 226)
Acquisition of other asset elements	(1 330)	(2 610)
	<u>114 752</u>	<u>(269 780)</u>
Amounts carried forward	<u>131 901</u>	<u>(273 107)</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Amounts brought forward	<u>131 901</u>	<u>(273 107)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Short-term borrowings	9 570 076	8 991 173
Reimbursement of short-term loans	(9 549 034)	(8 864 654)
Long-term borrowings	167 922	353 460
Reimbursement of long-term debt	(324 341)	(214 466)
Net increase in other liabilities	<u>11 496</u>	<u>3 124</u>
	<u>(123 881)</u>	<u>268 637</u>
INCREASE (REDUCTION) IN CASH AND CASH EQUIVALENTS	8 020	(4 470)
OPENING CASH AND CASH EQUIVALENTS	<u>(7 444)</u>	<u>(2 974)</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 27)	<u><u>576</u></u>	<u><u>(7 444)</u></u>

The notes form an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006
(in thousands of dollars)

1. CONSTITUTION, MISSION AND OPERATIONS

The Corporation d'hébergement du Québec (la Corporation) is a joint stock legal person 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 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.

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.

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.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**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**Flotation, Discount and Premium Costs Related to the Long-term Debt**

Discount, premium and flotation costs related to the long-term debt are carried forward 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.

Furniture and Equipment

Items of furniture and equipment used for administrative purposes are entered at cost, and 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 period of between 10 and 25 years.

LONG-TERM DEBT

Irregular coupon bonds are entered at their face value increased annually by capitalization of interest expenses at the interest rate in force, using the compound interest method.

OTHER LIABILITIES**Deferred Contributions**

Deferred contributions are composed of the surplus of the fair value of buildings over their cost where the consideration is minor to zero, together with amounts received from organizations to finance building projects. They are gradually transferred to revenues using the depreciation method applicable to the buildings in question.

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.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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

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.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses derivative financial instruments to manage the risks related to interest rate fluctuations arising from balance sheet positions. To do this, the Corporation entered into interest rate guarantee contracts until December 2005, and from January 2006 onwards has made exclusive use of interest rate swaps.

Interest rate swaps are operations in which two parties exchange interest streams on a specific theoretical capital for a predetermined period, at fixed and variable rates agreed upon by the parties. The capital amounts are not exchanged. These derivative instruments are entered at their fair value. They are presented in the balance sheet as liabilities related to derivative financial instruments, and variations in their fair value are posted to the statement of operations as interest cost adjustments.

3. RENTAL INCOME – HEALTH NETWORK

Rental income is derived from 15-year leases signed on or after April 1, 2000, with hospitals, local community service centres (CLSCs), long-term residential care centres (CHSLDs) and other health network institutions occupying the Corporation's buildings. It is established annually on the basis of the Corporation's pricing policy.

4. RENTAL INCOME – OTHERS – NET

	<u>2006</u>	<u>2005</u>
Rental Income	<u>4 053</u>	<u>3 671</u>
Expenses		
Operating costs	1 579	2 078
Interest	319	258
Conservation work	121	441
Depreciation of buildings	714	661
Depreciation of workplace developments	<u>94</u>	<u>94</u>
	<u>2 827</u>	<u>3 532</u>
	<u>1 226</u>	<u>139</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars)

5. 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.

6. FINANCIAL COSTS – NET

	2006	2005
Interest on the Long-term Debt		
Bonds	19 138	22 227
Notes	100 696	106 880
Other debts	4 837	7 747
Amortization of discounts, premiums and flotation costs for long-term debt	408	358
Other financial costs	3 471	29
	<u>128 550</u>	<u>137 241</u>
Minus:		
Interest income from a sinking fund for the Buildings of the Corporation managed by the Ministère des Finances	<u>1 685</u>	<u>1 985</u>
	<u>126 865</u>	<u>135 256</u>
Interest on Short-term Loans		
Interest	62 655	49 840
Minus:		
Interest charged to buildings under construction owned by the Corporation and to projects under consideration	3 364	3 459
Interest income	<u>27</u>	<u>2</u>
	<u>59 264</u>	<u>46 379</u>
	<u>186 129</u>	<u>181 635</u>

Interest costs on loans from related enterprises under joint control amounted to \$103.3 M (2005: \$109.6 M) in the case of long-term loans and \$22.1 M (2005: \$3.9 M) in the case of short-term loans.

The other financial costs are contributions paid to the refinancing of long-term loans prior to term. These costs were paid by the Corporation under protest, and are currently the subject of legal proceedings.

7. DEPRECIATION

	2006	2005
Fixed Capital Assets		
Buildings under operation	48 865	45 628
Rented furniture and equipment	3 979	3 557
Other assets		
Deferred costs – conservation	<u>1 684</u>	<u>1 558</u>
	<u>54 528</u>	<u>50 743</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	8 599	7 764
Cost of premises occupied by the Corporation	514	488
Professional services	619	285
Mail, courier services, communications and marketing	166	161
Information systems	254	199
Administrative and office expenses	205	190
Other expenses	714	529
Depreciation of furniture, equipment and computer systems	286	275
	11 357	9 891
Minus:		
Management costs and direct costs capitalized to fixed capital assets and projects under consideration	1 846	1 677
Direct costs charged to consulting expenses and network building information system expenses	612	405
	8 899	7 809

9. CLIENT REBATES

Because of the surpluses generated in 2005-2006 by the application of its tariffs, the Corporation has decided to grant a rebate to its clients in the health and social service networks. The rebate is equal to 2.7% (2005: 8.0%) of the 2005-2006 interest on accounts receivable – mandated projects and on loans bearing interest at the one-month bank acceptance rate + 0.30%.

10. TEMPORARY INVESTMENTS

The temporary investment is a Treasury bill. It is presented at cost, bears interest at a rate of 2.82% and falls due in June 2006.

11. ACCOUNTS RECEIVABLE

	2006	2005
Amount receivable from the McGill University Health Centre, transferred to loans during the year		20 046
Amount receivable from the Gouvernement du Québec	15 445	3 751
Other	9 061	5 550
	24 506	29 347

12. 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.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

13. LOANS

	2006	2005
Health and social services agencies ^(*)	734 009	907 063
Health network institutions ^(**)	891 083	848 036
Early childhood centres ^(***)	66 826	171 301
Other	597	298
	<u>1 692 515</u>	<u>1 926 698</u>

* These loans include an amount of \$452.5 M (2005: \$622.8 M) relating to loan agreements covering the period up to 2023, in consideration of which long-term financing has been granted. Instalments on the loans are payable on September 30 and March 31 of each year and are guaranteed by movable hypothecs. The amounts received correspond to the payments due in capital and interest on the long-term loan, with interest rates varying between 5.5% and 12.5%, (2005: 5.5% and 12.5%) for terms ending between 2007 and 2023. The loans also include a short-term amount of \$281.5 M (2005: \$284.3 M) comprising lines of credit currently bearing interest at the one-month bank acceptance rate plus 0.30%.

** These loans include an amount of \$863.2 M (2005: \$839.2 M) composed of lines of credit currently bearing interest at the bank acceptance rate plus 0.30%. These loans include an amount of \$27.9 M (2005: \$8.9 M) covered by long-term loan agreements ending between 2007 and 2017 and bearing interest at the one-month bank acceptance rate plus 0.30%.

*** These loans are short-term and currently bear interest at the preferential rate less 0.5%

14. RECEIVABLES – MANDATED PROJECTS

Receivables – mandated projects include all direct costs plus management fees and interest, calculated at the one-month bank acceptance rate + 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.

15. FIXED CAPITAL ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net value	Net value
Properties under operation				
Land	109 917		109 917	113 224
Buildings	<u>1 916 777</u>	<u>277 103</u>	<u>1 639 674</u>	<u>1 581 975</u>
	<u>2 026 694</u>	<u>277 103</u>	<u>1 749 591</u>	<u>1 695 199</u>
Projects under construction				
Land	28 444		28 444	5 000
Buildings	<u>52 241</u>		<u>52 241</u>	<u>88 857</u>
	<u>80 685</u>		<u>80 685</u>	<u>93 857</u>
Rented furniture and equipment	<u>43 755</u>	<u>22 606</u>	<u>21 149</u>	<u>25 134</u>
	2 151 134	299 709	1 851 425	1 814 190

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

15. FIXED CAPITAL ASSETS (cont'd)**Costs Capitalized to Properties**

During the year, the following costs were capitalized to properties.

	2006	2005
Interest on short-term borrowings	2 449	2 982
General and administrative expenses	1 497	1 484

16. PROPERTIES INTENDED FOR SALE

	2006		2005
	Cost	Accumulated depreciation	Net value
Land	808		877
Buildings	222	211	3
	1 030	211	880

17. OTHER ASSET ELEMENTS

	2006		2005
	Cost	Accumulated depreciation	Net value
Flotation, discount and premium costs related to the long-term debt	10 906	1 762	8 204
Deferred costs – conservation	26 704	5 311	22 504
Information systems	1 093	701	371
Furniture and equipment	1 051	539	554
Workplace development	2 094	285	1 903
Deferred costs – other	624		131
	42 472	8 598	33 667

18. ACCRUED INTEREST

	2006	2005
Related organizations – entitles under joint control	41 012	40 980
Others	6 885	16 572
	47 897	57 552

19. SHORT-TERM LOANS

	2006	2005
Discount notes		
Financial institutions, 3.40% to 4.05%	1 592 924	1 747 660
Notes at face value		
Fonds de financement du Gouvernement du Québec, 3.73% to 3.97%	319 000	225 350
Other loans, 3.64% to 3.89%	152 423	70 294
	2 064 347	2 043 304

As at March 31, 2006, the Corporation had one line of credit of \$10 M, renewable on July 31, 2006. Amounts drawn bear interest at the preferential rate.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

20. LONG-TERM DEBT

	2006	2005
Bonds		
> 5.9%, falling due during the year		7 990
> 6.15%, falling due during the year		6 900
> 10.75% to 12.5%, falling due between 2008 and 2019	74 590	75 610
> No payment of interest for some periods and bearing interest for the remainder at rates of 68% to 156% (effective rate of 10.46% to 10.51%) falling due between 2013 and 2015, including capitalizable interest	107 052	102 099
Borrowing on notes from the Fonds de financement du Gouvernement du Québec at rates varying from:		
> 3.73% to 6.52%, falling due in 2007 to 2037	1 413 446	1 301 711
> 6.77% and 6.79%, falling due in 2023	185 619	244 053
> 9.38%, falling due in 2018 to 2021	29 335	159 994
Borrowing on notes from Financement-Québec at rates varying from:		
> 5.56% to 6.40%, falling due in 2009 and 2016	727	1 430
> 8.32%, falling due in 2019	534	2 333
> 9.38%, falling due in 2018	503	545
Borrowings from the Canada Mortgage and Housing Corporation, reimbursed during the year		56 183
Mortgages from Immobilière SHQ guaranteed by buildings with a book value of \$111.0 M at rates varying from:		
> 6.88%, falling due in 2020 to 2023	15 037	15 577
> 7.5% to 7.88%, falling due in 2021 to 2029	4 659	4 771
> 8%, falling due from 2028 to 2030	14 722	14 937
	<u>1 846 224</u>	<u>1 994 133</u>
Minus:		
Amounts receivable from the Gouvernement du Québec related to the long-term debt *	<u>64 460</u>	<u>65 814</u>
	<u>1 781 764</u>	<u>1 928 319</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 4.9% (2005: 5.4%).

All long-term loans bear interest at fixed rate.

The capital payments to be made in the next five financial years are as follows:

	Financement- Québec *	Fonds de financement du Gouvernement du Québec *	Société d'habitation du Québec *	Other unrelated organizations	Payments (net contribu- tions) to the Sinking Fund	Total payments
2007	146	76 563	930	2 429	3 807	83 885
2008	146	247 525	999	17 234	(6 069)	259 835
2009	313	62 197	1 073	53 026	(36 718)	79 891
2010	129	154 658	1 153	4 489	1 320	161 749
2011	129	108 054	1 238	17 449	1 320	128 190

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

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006
(in thousands of dollars)

21. OTHER LIABILITY ELEMENTS

	2006		2005
	Cost	Accumulated depreciation	Net value
Deferred contributions	146 229	10 932	135 297
Liabilities relating to derivative financial instruments	342		342
	<u>146 571</u>	<u>10 932</u>	<u>135 639</u>
			<u>111 661</u>

During the year, contributions from organizations to fund construction projects amounted to \$17.2 M (2005: \$4.4 M).

22. CAPITAL STOCK

	2006	2005
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>

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements and posted at their exchange value, the Corporation is related to all government departments and special funds and to all organizations and undertakings controlled directly or indirectly by the Gouvernement du Québec, or subject either to joint control or to a significant joint influence by the Gouvernement du Québec. The Corporation has not entered into any commercial transactions with these related parties, other than in the normal course of its activities and on the usual commercial conditions. These transactions are not disclosed separately in the financial statements.

24. 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, the Corporation has entered into interest rate swaps. All swaps are for a term of less than one year.

	2006		2005	
	Fair value	Notional amount	Fair value	Contractual capital
Interest rate swaps	(342)	1 803 436	(138)	474 000
Interest rate guarantee contracts				

Long-term Debt

As at March 31, 2006, the fair value of the long-term debt with a book value of \$1 846.2 M (2005: \$1 994.1 M) was \$2 055.8 M (2005: \$2 208.8 M) based on actualization of market rate cash flows for titles with similar terms and interest rates. Of this fair value, an amount of \$34.4 M (2005: \$91.5 M) has not been appraised and has been considered at its book value, since there is no market for this type of long-term debt. Generally speaking, the debts bear fixed rates for periods of between 14 and 24 years.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

24. FINANCIAL INSTRUMENTS (cont'd)**FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)****Amounts Receivable from the Gouvernement du Québec Relating to the Long-term Debt**

As at March 31, 2006, the fair value of amounts receivable from the Gouvernement du Québec with a book value of \$64.5 M (2005: \$65.8 M) was \$77.8 M (2005: \$76.3 M), based on the market value of the related sinking fund investments.

Short-term Borrowings

The fair value of short-term borrowings as at March 31, 2006 was \$2 064.3 M (2005: \$2 043.3 M). Because of their short renewal period, the fair value of these titles is equivalent to their book value.

Loans

As at March 31, 2006, the fair value of the loans, whose book value was \$1 692.5 M (2005: \$1 926.7 M), was \$1 777.5 M (2005: \$2 032.2 M). The fair value of the loans equivalent to that of the long-term debt attributable to those receivables was \$537.5 M (2005: \$728.3 M), given that the amounts are in fact the payments in capital and interest falling due on the debts in question. An amount of \$1 240.0 M (2005: \$1 303.9 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.

Rents Receivable

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 27 years and do not bear interest.

Other Assets and Liabilities

Due to their short-term or indeterminate nature, the fair value of temporary investments, receivables, receivables – mandated projects, outstanding cheques less cash reserve, amounts withheld on contracts payable and accrued interest is equal to their book value.

Interest Rate and Credit Risks

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 since the Ministère de la Santé et des Services sociaux, in its expense budgets, recognizes the financial commitments that health institutions have made in respect of these leases and loans.

25. COMMITMENTS AND CONTINGENCIES**CONTRACTUAL COMMITMENTS**

As at March 31, 2006, the uncompleted balance of contracts signed by the Corporation involving contractual commitments totalled \$79.8 M (2005: \$83.6 M) including \$28.1 M (2005: \$26.3 M) for current projects and \$49.7 M (2005: \$55.8 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 FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

25. COMMITMENTS AND CONTINGENCIES (cont'd)

	2006	2005
Loans		
Health and social service agencies	227 096	180 833
Health network institutions	23 741	2 823
Early childhood centres	14 795	55 486
	<u>265 632</u>	<u>239 142</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 had paid an amount of \$6.1 M as at March 31, 2006. 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 \$25.4 M, were in progress at the time these financial statements were prepared. Based on the available information, however, management believes it is highly unlikely that these claims and legal proceedings will result in any liability of significance to the Corporation's financial situation.

Where applicable, any payments by the Corporation will be entered into the year's expenses, and either capitalized to properties depending on the type of the claim, or deducted from the existing provisions.

26. FUTURE FRINGE BENEFITS
Pension Plans

The personnel of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP) or in the Managerial Personnel Retirement Plan (RRPE) or in the Civil Service Superannuation Plan (RRF) or in the Senior Administration Pension Plan (RRAS), administered by an agency of the Gouvernement du Québec. These multi-employer pension plans are defined benefit plans and include guarantees upon retirement and upon death.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars)

26. 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 (2005: \$0.3 M).

Provision for Sick Leave and Vacations

	2006			2005
	Vacations	Sick leave	Total	Total
Opening balance	729	1 125	1 854	2 094
Amounts transferred *	1	9	10	(55)
Yearly charge	665	160	825	785
Subtotal	1 395	1 294	2 689	2 824
Minus:				
Benefits paid during the year	657	210	867	970
Closing balance	738	1 084	1 822	1 854

The balance of the provision is included in the "creditors and withholdings from contracts 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.

27. CASH FLOW

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

	2006	2005
Temporary investment	2 434	2 486
Outstanding cheques less cash reserve	(1 858)	(9 930)
Cash and cash equivalents	576	(7 444)

The Corporation paid \$193.3 M (2005: \$185.0 M) in interest during the year, and received interest payments of \$56.0 M (2005: \$70.6 M).

During the year, properties were acquired at a total cost of \$87.4 M (2005: \$108.0 M) including an amount of \$87.4 M (2005: \$97.8 M) disbursed during the year. An amount of \$29.2 M (2005: \$39.0 M) was disbursed during the year for acquisitions from the previous year. In addition, out of the total amount of property acquisitions, \$11.1 M (2005: \$20.0 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.

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 of recommends that the board approve them.

The Auditor General of Québec had 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, May 19, 2006

CORPORATION D'HÉBERGEMENT DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance of Québec

I have audited the consolidated balance sheet of the Corporation d'hébergement du Québec as at March 31, 2006, along with the consolidated statements of income, retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on 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 consolidated financial statements are a fair presentation, in all material respects, of the financial position of the Corporation as at March 31, 2006, 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.

Renaud Lachance, CA
Auditor General of Québec

Québec City, May 19, 2006

CORPORATION D'URGENCES-SANTÉ
(R.S.Q., c. S-5)

REVENUES AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Subsidies (Note 3)	\$55 057 031	\$53 952 699
Ambulance services (Note 4)	27 674 457	27 520 533
Miscellaneous	<u>386 644</u>	<u>430 492</u>
	83 118 132	81 903 724
EXPENSES (Note 5)	<u>82 241 526</u>	<u>81 363 664</u>
SURPLUS REVENUES OVER EXPENSES	876 606	540 060
SURPLUS, BEGINNING OF YEAR	<u>2 066 712</u>	<u>1 526 652</u>
SURPLUS, END OF YEAR	<u>\$2 943 318</u>	<u>\$2 066 712</u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$10 311 197	\$10 046 485
Accounts receivable (Note 7)	5 294 429	5 751 947
Prepaid expenses	11 964	619 486
	<u>15 617 590</u>	<u>16 417 918</u>
Fixed assets (Note 9)	<u>4 244 641</u>	<u>3 341 833</u>
	<u><u>\$19 862 231</u></u>	<u><u>\$19 759 751</u></u>
LIABILITIES		
Current liabilities		
Owed to the Provincial Activities Fund, bearing interest at the prime rate less 2%, no terms of repayment	\$1 275 563	\$634 439
Accounts payable and accruals	15 338 071	14 640 718
Deferred subsidies		87 000
Instalments on commitments under capital leases (Note 11)	228 172	2 025 603
	<u>16 841 806</u>	<u>17 387 760</u>
Commitments under capital leases (Note 11)	<u>77 107</u>	<u>305 279</u>
	<u>16 918 913</u>	<u>17 693 039</u>
SURPLUS	<u>2 943 318</u>	<u>2 066 712</u>
	<u><u>\$19 862 231</u></u>	<u><u>\$19 759 751</u></u>
COMMITMENTS (Note 14)		
CONTINGENCY (Note 15)		
SUBSEQUENT EVENT (Note 16)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Francine Légaré, Member, Auditing Committee
Danielle Tétrault, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉ**CASH FLOW**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
CASH FLOW ORIGINATING FROM (APPROPRIATED TO) (Note 17)		
OPERATING ACTIVITIES		
Surplus revenues over expenses	\$876 606	\$540 060
Non-cash items charged to operating results:		
Depreciation of fixed assets	2 484 905	4 641 724
Loss (Gain) on disposal of fixed assets	<u>(4 625)</u>	<u>13 960</u>
	 3 356 886	 5 195 744
Changes in assets and liabilities related to operations		
Current assets, (increase) decrease		
Accounts receivable	457 518	1 706 052
Prepaid expenses	607 522	(276 151)
Current liabilities, increase (decrease)		
Owed to the Provincial Activities Fund	641 124	173 496
Accounts payable and accruals	646 320	361 402
Deferred subsidies	<u>(87 000)</u>	<u></u>
	 2 265 484	 1 964 799
	<u>5 622 370</u>	<u>7 160 543</u>
FINANCING ACTIVITIES		
Reimbursement of the debt for capital lease contracts	<u>(2 025 603)</u>	<u>(2 854 664)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(3 339 639)	(278 449)
Proceeds from disposal of fixed assets	<u>7 584</u>	<u></u>
	<u>(3 332 055)</u>	<u>(278 449)</u>
INCREASE IN CASH ON HAND	264 712	4 027 430
CASH ON HAND, BEGINNING OF YEAR	<u>10 046 485</u>	<u>6 019 055</u>
CASH ON HAND, END OF YEAR	<u><u>\$10 311 197</u></u>	<u><u>\$10 046 485</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

CHANGES IN FUND BALANCE
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	<u>\$838 464</u>	<u>\$460 943</u>
Increase		
Gouvernement du Québec subsidy	1 100 821	819 846
Interest	<u>26 529</u>	<u>10 429</u>
	<u>1 127 350</u>	<u>830 275</u>
Decrease		
Contribution to the International Interdisciplinary Conference on Emergencies	12 071	25 000
Investigation fees	156 010	
Contribution to the secondary RCR program	50 000	
Fees	8 060	35 731
Call prioritization system	358 115	318 775
Funding of public awareness of trained first-aid worker project		23 000
Training		4 000
Uniforms and test individual protective clothing	18 947	
Specialized medical furnishings		4 898
Purchase of crests	25 448	41 026
Contribution to the advanced pre-hospital care pilot project	61 600	
Legal fees		<u>324</u>
	<u>690 251</u>	<u>452 754</u>
CLOSING BALANCE	<u><u>\$1 275 563</u></u>	<u><u>\$838 464</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

BALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Amount receivable from the Ministère de la Santé et des Services sociaux		\$204 025
Owed by the Corporation, bearing interest at prime rate less 2%, without repayment terms	<u>\$1 275 563</u>	<u>634 439</u>
	<u><u>\$1 275 563</u></u>	<u><u>\$838 464</u></u>
 FUND BALANCE	 <u><u>\$1 275 563</u></u>	 <u><u>\$838 464</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Francine Légaré, Member, Auditing Committee
Danielle Tétrault, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

1. CONSTITUTION AND PURPOSE

The Corporation d'urgences-santé is a non-profit corporation established under the Act respecting health services and social services (R.S.Q., c. S-5). On its territory, it performs the duties attributed to a regional board by the Act respecting pre-hospital emergency services (S.Q., 2002, c. 69), notably planning, organizing and coordinating the organization of pre-hospital emergency services, including the implementation of a front-line service. It also operates a health communications centre and an ambulance service.

In accordance with a Ministère de la Santé et des Services sociaux directive, the surplus can be used only for the purposes stipulated in the legislation and cannot be used without the Department's prior authorization.

Provincial Activities Fund

The Ministère de la Santé et des Services Sociaux (MSSS) mandated the Corporation to acquire safety equipment and uniforms for all emergency medical technicians in the Province of Québec. As trustee for the Provincial Activities Fund, the Corporation must ensure equipment distribution, exchanges and replacement. Subsidies granted by the Department to the Fund cover purchase costs for individual protective clothing, as well as related direct costs. At the Department's request, the Fund also assumes specific expenses related to all pre-hospitalization services.

Provincial Fund for the Management of Ambulance Technicians' Individual Protective Clothing

On February 6, 2006, a memorandum of agreement for the creation of 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. In the Corporation's opinion, this new fund will eventually replace the Provincial Activities Fund for recording all transactions related to the management of individual protective clothing. For the fiscal year ended March 31, 2006, no financial transaction occurred in this fund.

The operations of these mandates are recorded separately from those of the Corporation.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Reporting subsidy income

Subsidies are recorded as proceeds when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

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 determined or can be determined;
- Recovery is reasonably certain.

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

Fixed assets are recorded at cost and depreciated on a straight-line basis over the following estimated service lives:

Data processing equipment	3 to 5 years
Furniture and equipment	5 years
Automotive equipment	from 36 months to 60 months
Computer-aided dispatch system	5 years

Pension plans

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

3. REVENUE - SUBSIDIES

	<u>2006</u>	<u>2005</u>
Ministère de la Santé et des Services sociaux		
- operating subsidy	\$55 057 031	\$35 005 154
Société de l'assurance automobile du Québec		18 947 545
	<u>\$55 057 031</u>	<u>\$53 952 699</u>

4. REVENUE - AMBULANCE SERVICES

	<u>2006</u>	<u>2005</u>
Health and social services institutions	\$9 392 402	\$9 510 314
Ministère de la Santé et des Services sociaux		
- subsidy for institutions	5 651 021	5 714 729
	<u>15 043 423</u>	<u>15 225 043</u>
Société de l'assurance automobile du Québec	1 036 362	1 033 909
Ministère de l'Emploi et de la Solidarité sociale	4 277 255	4 306 150
Individuals	6 894 898	6 589 863
Other	<u>422 519</u>	<u>365 568</u>
	<u>\$27 674 457</u>	<u>\$27 520 533</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. EXPENDITURE BY RESPONSIBILITY CENTRE

	Training	General administration	Data processing	Pre-hospital emergency services
Salaries and wages	\$969 033	\$3 358 128	\$1 199 058	\$29 490 590
Fringe benefits ^a	497 856	1 281 490	266 829	6 582 734
Payroll taxes ^b	399 809	909 532	234 704	11 665 713
Medical supplies and medication	9 292	254		1 872 292
Travelling expenses	7 089	125 907	1 584	87 650
Services purchased (Note 6)	81 001	1 189 582	407 051	969 029
Communications	1 840	280 204	2 428	68 288
Building rental		22 269	3 118	1 507 100
Equipment rental		3 517		4 405
Capital leases:				
Interest on bonds	6 310		17 602	40 542
Depreciation of fixed assets	47 594	50 251	319 729	2 028 444
Loss (Gain) on disposal of fixed assets			(1 319)	(3 150)
Uniform purchases and rental	54	467		662 964
Automotive equipment expenses	26 926	88		3 992 288
Office supplies	5 981	72 386	24 811	170 839
Doubtful accounts and collection charges		31		1 444 584
Doubtful accounts recovered				(57 552)
Insurance		101 837		
Interest and bank charges	35	808	139	700
Other	4 321	116 245	42 745	130 389
Expenditure recovery	(68 894)	(74 182)	(676)	(23 087)
	<u>\$1 988 247</u>	<u>\$7 438 814</u>	<u>\$2 517 803</u>	<u>\$60 634 762</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 2006	Total 2005
\$3 247 482	\$379 778	\$424 569		\$39 068 638	\$37 629 367
793 890	79 628	102 975		9 605 402	9 891 869
629 039	76 233	161 706		14 076 736	11 770 202
164		3 126		1 885 128	1 949 600
5 545	916	327		229 018	179 306
1 020 729	2 213	121 229	\$78 676	3 869 510	4 436 070
712 176	4 661			1 069 597	969 144
			1 374 616	2 907 103	2 897 332
269 910				277 832	284 723
427				64 881	184 412
32 994		1 637	4 256	2 484 905	4 641 724
		(156)		(4 625)	13 960
8 284		22 443		694 212	982 887
574	205	51 126		4 071 207	3 491 607
17 792	2 166	457		294 432	318 375
				1 444 615	1 217 827
				(57 552)	(56 042)
				101 837	99 840
				1 682	5 932
14 063	2 834	5 507	8 192	324 296	594 309
	(489)			(167 328)	(138 780)
<u>\$6 753 069</u>	<u>\$548 145</u>	<u>\$894 946</u>	<u>\$1 465 740</u>	<u>\$82 241 526</u>	<u>\$81 363 664</u>

CORPORATION D'URGENCES-SANTÉNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**6. SERVICES PURCHASED**

	2006	2005
Electronic data processing	\$90 906	\$107 706
Laundry	386 700	300 973
Maintenance and repairs - premises and equipment	1 287 416	1 352 479
Maintenance and repairs - computer-aided dispatch system	560 691	645 137
Computer software updates	164 710	253 378
Training	149 083	300 423
Professional fees	1 004 392	1 060 457
Pre-hospital research project		53 756
Relocation of head office		142 799
Process review, restructuring and strategic aims	172 754	151 765
Other	52 858	67 197
	<u>\$3 869 510</u>	<u>\$4 436 070</u>

7. ACCOUNTS RECEIVABLE

	2006	2005
Ambulance Service Beneficiaries		
Health and social services institutions	\$1 959 578	\$2 099 535
Société de l'assurance automobile du Québec	61 268	90 893
Ministère de l'Emploi et de la Solidarité sociale	362 171	478 229
Individuals	3 006 999	2 927 046
Other	31 662	29 965
	<u>5 421 678</u>	<u>5 625 668</u>
Ministère de la Santé et des Services sociaux		
- subsidies	286 747	865 863
Québec sales tax receivable	280 661	258 220
Other	976 865	763 954
	<u>6 965 951</u>	<u>7 513 705</u>
Allowance for doubtful accounts		
Individuals	(1 671 522)	(1 761 758)
	<u>\$5 294 429</u>	<u>\$5 751 947</u>

8. FINANCIAL INSTRUMENTS

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

CORPORATION D'URGENCES-SANTÉNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2005**9. FIXED ASSETS**

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$4 086 531	\$3 800 877	\$285 654	\$384 136
Furniture and equipment	5 455 908	4 773 179	682 729	928 265
Automotive equipment	13 145 250	12 837 260	307 990	221 790
Rolling stock being manufactured	2 730 465		2 730 465	
Computer-aided dispatch system	5 981 984	5 974 045	7 939	4 222
	<u>31 400 138</u>	<u>27 385 361</u>	<u>4 014 777</u>	<u>1 538 413</u>
Fixed assets held under capital leases:				
Automotive equipment	200 602	142 848	57 754	1 245 175
Equipment	593 678	450 675	143 003	520 730
Computer-aided dispatch system	42 043	12 936	29 107	37 515
	<u>836 323</u>	<u>606 459</u>	<u>229 864</u>	<u>1 803 420</u>
	<u>\$32 236 461</u>	<u>\$27 991 820</u>	<u>\$4 244 641</u>	<u>\$3 341 833</u>

During the fiscal year, fixed assets were acquired for a total cost of \$3 390 672 (2005: \$463 574), including fixed assets in the amount of \$0 (2005: \$174 065) acquired through capital leases. A sum of \$3 339 639 (2005: \$278 449) in cash was paid for the purchase of fixed assets. An equipment purchase in the amount \$51 033 is due on March 31, 2006.

10. AUTHORIZED CREDIT LINE

The Ministère de la Santé et des Services sociaux authorizes the Corporation to borrow in keeping with its financing needs. As at March 31, 2006 and 2005, there was no authorized borrowing. Any Corporation borrowing contracted with its financial institution in the form of a credit line bears interest at the prime rate.

11. COMMITMENTS UNDER CAPITAL LEASES

	2006	2005
Commitments under capital leases:		
- rates varying from 3.96% to 6.44%, maturing until 2008	\$305 279	\$2 330 882
Instalments due within one year	<u>228 172</u>	<u>2 025 603</u>
	<u>\$77 107</u>	<u>\$305 279</u>

The minimum payments required on commitments under capital leases are as follows:

2007	\$237 177
2008	<u>78 450</u>
Total minimum payments required	<u>315 627</u>
Amount of interest included in total minimum payments required	<u>10 348</u>
	<u>\$305 279</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. FUTURE FRINGE BENEFITS**Pension plans**

With the exception of emergency medical technicians, the staff members of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death. The Corporation's contributions charged to the year-end statement amount to \$714 554 (2005: \$474 781).

The Corporation's emergency medical technicians participate in the supplemental pension plan for ambulance technicians in Québec (RRTAQ). This is a defined-contribution plan and does not provide vested benefits for past service. The Corporation's contributions charged to the year-end statement amount to \$1 606 589 (2005: \$1 605 171).

The liability of the Corporation towards these plans is restricted to its contributions as an employer.

Provisions for vacation time, holidays and sick leave

	Vacation time and holidays	Sick leave	Total 2006	Total 2005
Opening balance	\$5 883 472	\$(45 104)	\$5 838 368	\$5 636 907
Charges for the year	7 790 339	1 911 244	9 701 583	9 648 762
Benefits paid during the year	(7 450 738)	(1 911 054)	(9 361 792)	(9 447 301)
Closing balance	<u>\$6 223 073</u>	<u>\$(44 914)</u>	<u>\$6 178 159</u>	<u>\$5 838 368</u>

This provision is included in the item "Accounts payable and accruals".

13. RELATED PARTY TRANSACTIONS

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

14. COMMITMENTS

The Corporation is committed to long-term contracts for office space and equipment and equipment maintenance expiring on various dates up to June 2012.

Payments for the year ended March 31, 2006, amount to \$2 997 443 (2005: \$2 872 946). The minimum payments for the coming fiscal years are as follows:

2007	\$3 142 362
2008	2 899 025
2009	2 782 613
2010	2 610 997
2011	1 889 948
2012 and thereafter	<u>944 302</u>
	<u>\$14 269 247</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. COMMITMENTS (cont'd)

During the fiscal year, the Corporation also made the commitment to purchase 129 trucks to be used to manufacture ambulance vehicles for \$5 597 400. Some 65 of them were delivered for \$2 820 400. The remaining balance is \$2 777 000 over the next two fiscal years.

Provincial Activities Fund

Under a contract signed by the Ministère de la Santé et des Services sociaux, the Provincial Activities Fund will have to pay out a total of US\$511 466, ending in 2008, for the implementation of a system of call prioritization to be used throughout Québec. The instalments, converted into Canadian dollars at March 31 2006, are as follows:

2007	\$291 663
2008	<u>291 663</u>
	<u><u>\$583 326</u></u>

15. CONTINGENCY

In May 2006, an ambulance supplier submitted a claim in the amount of \$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 not founded and will be contested. Consequently, no significant liability can result from this dispute.

16. SUBSEQUENT EVENTS

On April 10, 2006, the Corporation's board of directors authorized the purchase of 129 ambulance modules and their assembly on trucks for \$12 956 500 over the coming two fiscal years.

Provincial Fund for the Management of Ambulance Technicians' Individual Protective Clothing

On May 24, 2006, the Corporation signed a five-year contract for the integrated management of individual protective clothing for all Québec ambulance technicians for a maximum of \$750 000 annually, plus taxes.

17. ADDITIONAL CASH FLOW INFORMATION

	<u>2006</u>	<u>2005</u>
Interest paid	\$66 563	\$190 344
Interest earned	349 552	198 068

CORPORATION D'URGENCES-SANTÉ

MANAGEMENT'S REPORT

The financial statements of the Corporation d'urgences-santé were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The Board of Directors oversees the way in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not part of management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the Board of Directors.

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

Luc-André Gagnon
President and Chief Executive Officer

Jean Girouard
Director, Finance

Montréal, May 26, 2006

CORPORATION D'URGENCES-SANTÉ**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Corporation d'urgences-santé as at March 31, 2006 and the revenues and surplus and cash flow statements for the year then ended. I have also audited the balance sheet of the Provincial Activities Fund, which is administered by the Corporation, as at March 31, 2006, and the statement of changes in fund balance for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation and the Provincial Activities Fund as at March 31, 2006 and the results of the operations and cash flows of the Corporation for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 26, 2006

PUBLIC CURATOR (THE)
(R.S.Q., c. C-81)

RESULTS FOR ACCOUNTS ADMINISTERED
for the year ended March 31, 2006

	Curatorships and tutorships		Unclaimed property		Total	Total
	2006	2005	2006	2005	2006	2005
REVENUES						
Employment assistance	\$54 390 786	\$52 201 442	\$922	\$2 959	\$54 391 708	\$52 204 401
Old age pension	42 814 526	41 757 551	10 896	33 782	42 825 422	41 791 333
Régie des rentes du Québec	12 905 011	11 719 683	4 493	18 727	12 909 504	11 738 410
Other pensions	11 618 733	10 892 700	(57 745)	(40 317)	11 560 988	10 852 383
Tax credits	5 085 093	4 652 266	369 601	406 536	5 454 694	5 058 802
Inheritance	4 694 534	1 562 803	2 900	140 861	4 697 434	1 703 664
Société de l'assurance automobile du Québec	4 553 918	4 106 676	1 152	4 434	4 555 070	4 111 110
Rent	939 645	1 085 219	54 308	50 815	993 953	1 136 034
Interest and dividends	376 653	548 184	28 569	40 322	405 222	588 506
Insurance	219 239	314 014		43 784	219 239	357 798
Compensation received from government agencies		278 450				278 450
Compensation for financial losses	66 120	48 043	31 086	24 171	97 206	72 214
Compensation for disbursements linked to dams without operators			349 916	369 840	349 916	369 840
Gain (loss) on disposal of investments	1 032 292	78 621	(471 714)	(290 288)	560 578	(211 667)
Other revenue	898 349	920 128	999 125	716 671	1 897 474	1 636 799
	<u>139 594 899</u>	<u>130 165 780</u>	<u>1 323 509</u>	<u>1 522 297</u>	<u>140 918 408</u>	<u>131 688 077</u>
EXPENSES						
Lodging and allowance for petty cash	114 700 074	109 870 966	94	1 706	114 700 168	109 872 672
Public Curator of Québec's fees	4 425 068	3 182 504	1 981 662	919 517	6 406 730	4 102 021
Medical expenses	4 282 626	3 983 335		(1 873)	4 282 626	3 981 462
Income and taxes	2 497 758	1 949 706	1 483 908	1 064 433	3 981 666	3 014 139
Funeral services	2 417 204	2 639 693	(2 618)	17 557	2 414 586	2 657 250
Public services	1 138 898	976 550	1 138	2 846	1 140 036	979 396
Legal costs	1 108 173	854 508	114 243	82 671	1 222 416	937 179
Maintenance and repairs - buildings	618 229	679 280	50 373	39 546	668 602	718 826
Insurance premiums	492 884	302 375	81 702	81 943	574 586	384 318
Maintenance and repairs - dams without operators			349 916	369 840	349 916	369 840
Interest expenses	31 888	55 118	243	204	32 131	55 322
Other expenses	2 812 498	3 156 269	1 665 465	1 737 042	4 477 963	4 893 311
	<u>134 525 300</u>	<u>127 650 304</u>	<u>5 726 126</u>	<u>4 315 432</u>	<u>140 251 426</u>	<u>131 965 736</u>
ICOME (LOSS) BEFORE THE FOLLOWING ELEMENTS						
Amounts carried forward	<u>\$5 069 599</u>	<u>\$2 515 476</u>	<u>\$(4 402 617)</u>	<u>\$(2 793 135)</u>	<u>\$666 982</u>	<u>\$(277 659)</u>

PUBLIC CURATOR (THE)RESULTS FOR ACCOUNTS ADMINISTERED
for the year ended March 31, 2006

	Curatorships and tutorships		Unclaimed property		Total	Total
	2006	2005	2006	2005	2006	2005
ICOME (LOSS) BEFORE THE FOLLOWING ELEMENTS						
Amounts brought forward	\$5 069 599	\$2 515 476	\$(4 402 617)	\$(2 793 135)	\$666 982	\$(277 659)
Reassessment of assets (Note 7)	8 306 065	12 563 677	2 740 589	1 887 355	11 046 654	14 451 032
Reassessment of liabilities (Note 7)	(849 784)	(1 371 235)	(3 952 742)	(2 301 258)	(4 802 526)	(3 672 493)
Realized income from investment of common trust funds (Note 8)	6 656 657	5 876 339	766 428	756 663	7 423 085	6 633 002
Variation in unrealized gains (losses) on investment of common trust funds (Note 9)	3 313 646	547 772	(94 254)	(12 180)	3 219 392	535 592
NET INCOME (NET LOSS)	<u>\$22 496 183</u>	<u>\$20 132 029</u>	<u>\$(4 942 596)</u>	<u>\$(2 462 555)</u>	<u>\$17 553 587</u>	<u>\$17 669 474</u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)BALANCE SHEET FOR ACCOUNTS ADMINISTERED
as at March 31, 2006

	Curatorships and tutorships		Unclaimed property		Total	Total
	2006	2005	2006	2005	2006	2005
				(Restated)		(Restated)
ASSETS						
Cash and term deposits	\$22 088 249	\$20 578 801	\$1 079 230	\$579 089	\$23 167 479	\$21 157 890
Prepaid expenses	2 711 747				2 711 747	
Shares	3 615 515	5 186 590	3 401 149	3 144 664	7 016 664	8 331 254
Bonds	3 614 653	3 725 730	1 249 616	996 527	4 864 269	4 722 257
Mutual	4 926 845	5 541 318	6 829 322	6 036 158	11 756 167	11 577 476
RRSP, QSSP, RRIF	10 101 647	8 361 603	2 722 847	1 971 815	12 824 494	10 333 418
Grouped fund investments (Note 4)	177 487 840	167 256 744	60 797 154	68 692 941	238 284 994	235 949 685
Immoveables	32 801 146	30 227 275	10 351 277	11 354 296	43 152 423	41 581 571
Life insurance policy buyback value	2 684 241	2 577 629			2 684 241	2 577 629
Prior arrangements for funeral services	2 868 931	2 783 799			2 868 931	2 783 799
Notes and other receivables (Note 5)	8 333 088	8 222 889	1 122 130	174 859	9 455 218	8 397 748
Valuable objects and property in storage	519 136	443 757	69 761	67 597	588 897	511 354
Motor vehicles	409 282	321 915	46 440	50 094	455 722	372 009
Mortgage loans (Note 5)	348 221	372 376	12 500	70 500	360 721	442 876
Other assets	97 488	70 077	2 008	750	99 496	70 827
	<u>\$272 608 029</u>	<u>\$255 670 503</u>	<u>\$87 683 434</u>	<u>\$93 139 290</u>	<u>\$360 291 463</u>	<u>\$348 809 793</u>
LIABILITIES						
Payables	\$12 105 016	\$11 800 649	\$67 527 446	\$65 414 687	\$79 632 462	\$77 215 336
Proceeds collected in advance	4 068 735				4 068 735	
Mortgage loans	1 482 907	1 038 094	887 521	577 459	2 370 428	1 615 553
Grouped fund payables (Note 6)	1 783 272	1 202 206	1 082 120	1 556 880	2 865 392	2 759 086
Deposits on offers to purchase	55 279	50 730	58 541	60 183	113 820	110 913
	<u>19 495 209</u>	<u>14 091 679</u>	<u>69 555 628</u>	<u>67 609 209</u>	<u>89 050 837</u>	<u>81 700 888</u>
NET ASSETS OF ACCOUNTS ADMINISTERED						
	<u>253 112 820</u>	<u>241 578 824</u>	<u>18 127 806</u>	<u>25 530 081</u>	<u>271 240 626</u>	<u>267 108 905</u>
	<u>\$272 608 029</u>	<u>\$255 670 503</u>	<u>\$87 683 434</u>	<u>\$93 139 290</u>	<u>\$360 291 463</u>	<u>\$348 809 793</u>

CONTINGENCIES (Note 12)

The notes are an integral part of these financial statements.

Accepted and approved,
Diane Lavallée
Public Curator of Québec

PUBLIC CURATOR (THE)CHANGE IN NET ASSETS OF ACCOUNTS ADMINISTERED
for the year ended March 31, 2006

	Curatorships and tutorships		Unclaimed property		Total	Total
	2006	2005	2006	2005	2006	2005
				(Restated)		(Restated)
PREVIOUS OPENING BALANCE	\$241 578 824	\$223 892 891	\$32 376 037	\$50 257 601	\$273 954 861	\$274 150 492
Adjustment						
Change in accounting policy (Note 3)			(6 845 956)	(5 146 603)	(6 845 956)	(5 146 603)
OPENING BALANCE, ADJUSTED	<u>241 578 824</u>	<u>223 892 891</u>	<u>25 530 081</u>	<u>45 110 998</u>	<u>267 108 905</u>	<u>269 003 889</u>
NET INCOME (NET LOSS)	<u>22 496 183</u>	<u>20 132 029</u>	<u>(4 942 596)</u>	<u>(2 462 555)</u>	<u>17 553 587</u>	<u>17 669 474</u>
New assets	36 240 397	35 806 440	46 762 821	33 107 803	83 003 218	68 914 243
New liabilities	(7 075 520)	(5 530 642)	(15 087 228)	(21 864 828)	(22 162 748)	(27 395 470)
Remittance of property to heirs and assigns	(38 431 118)	(25 627 726)	(10 415 430)	(12 120 301)	(48 846 548)	(37 748 027)
Deletion and cancellation of certain liabilities	1 440 650	1 315 321	13 815 209	16 341 337	15 255 859	17 656 658
Deletion and cancellation of certain assets	(1 295 622)	(5 082 580)	(4 027 143)	(5 061 298)	(5 322 765)	(10 143 878)
Transfer – unclaimed curatorship and tutorship accounts (Note 10)	(1 840 974)	(3 382 692)	1 840 974	3 382 692		
Transfer of amounts from the liquidation of property under “Accounts payable to the Minister of Finance” (Note 11)		(54)	(43 160 666)	(40 190 647)	(43 160 666)	(40 190 701)
Transfer from “Account payable to the Minister of Finance” (Note 11)		55 837	7 811 784	9 286 880	7 811 784	9 342 717
	<u>(10 962 187)</u>	<u>(2 446 096)</u>	<u>(2 459 679)</u>	<u>(17 118 362)</u>	<u>(13 421 866)</u>	<u>(19 564 458)</u>
CLOSING BALANCE	<u>\$253 112 820</u>	<u>\$241 578 824</u>	<u>\$18 127 806</u>	<u>\$25 530 081</u>	<u>\$271 240 626</u>	<u>\$267 108 905</u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)NOTES TO FINANCIAL STATEMENTS
as at March 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).

The Public Curator's main duties are:

- to represent persons of full age considered not competent to varying degrees, in order to ensure their moral and physical well-being and to protect their rights;
- to monitor, inform and assist in their administration private curators and tutors appointed to represent persons of full age who are not competent; to fulfil the same duties toward tutors for minors and occasionally assume that tutorship role for the property of minors;
- to assume the administration of certain unclaimed successions, the provisional administration of property without an owner, property belonging to persons unknown or untraceable, property abandoned either by dissolved legal persons or by the administrators of the property of others and, finally, property unclaimed by their lawful owners within the appropriate time (Note 13).

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.

2. ACCOUNTING POLICIES

The financial statements of the General Fund of the Public Curator were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The assets and liabilities administered for other are recorded when the Public Curator's jurisdiction is established and as their existence becomes known. The cash flow statement is not shown as it would not provide any useful additional information on the Fund's cash flow during the year.

The various assets and liabilities are valued as follows:

- **Cash on hand and term deposits**
Cash, including cash amounts of beneficiaries held on behalf of persons represented under curatorship or tutorship in health and social services establishments and term deposits at acquisition cost
- **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**
Fixed assets, at standardized property assessment value.
- **Life insurance policy surrender value**
The surrender value of life insurance policies, including dividends receivable, is assessed at their realization value, minus borrowings, at the beginning of jurisdiction. Subsequently, this value is modified on the insurance policy's anniversary date and following when dividends receivable are cashed and borrowings repaid.

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

The various assets and liabilities are valued as follows: (cont'd)

- **P rearranged funeral services**
P rearranged funeral services, at acquisition cost.
- **B ills and other accounts receivable, automobiles, mortgage loans and other assets**
B ills and other accounts receivable, automobiles, mortgage loans and other assets, at net realizable value.
- **V aluable objects and stored goods**
V aluable objects and stored goods are assessed at their realizable value at the beginning of jurisdiction.
The amount of moveables kept at a third party's and the home of the person represented are not posted. This property is of little value and cannot reasonably be assessed.

Where applicable, when the value of various assets cannot be determined reasonably, it is recorded as \$1.

No latent income tax resulting from these assets is recorded to diminish the value of the above-mentioned assets.

Grouped fund investments

Liquid assets and liquid asset equivalents managed collectively by the Public Curator are incorporated into four grouped funds: Cash Fund, Revenue Fund, Diversified Fund and Registered Retirement Plan Fund.

Investments are recorded at fair value, established as follows:

- Money market securities are recorded at cost which, when accrued interest is added, approaches their fair value;
- Bonds are assessed according to the rates obtained from recognized stockbrokers;
- Securities listed on the stock market are assessed at market cost, i.e. the selling price at closing time of a certified stock market where the corresponding security is traded most.

The fluctuation in the fair value of grouped fund investments is recorded as an unrealized gain (loss) on investments.

The cost is determined using the average cost method.

Payables and mortgage loans

Section 43 of the Public Curator Act states that "the Public Curator shall maintain a separate administration and accounting in respect of each patrimony of which he has the administration. He shall be liable for the debts relating to any patrimony he administers only to the extent of the value of the property of the patrimony".

In this regard, it should be pointed out that the liabilities shown in this balance sheet represent those that the Public Curator administers and not the liabilities that he has the legal responsibility to pay.

Payables related to unclaimed property are recorded at the value at the beginning of jurisdiction and, subsequently, are reassessed at the time of final sale.

Proceeds collected in advance

Proceeds 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 net investment income of the Cash Fund, after deduction of the amounts payable to the Minister of Finance, is credited monthly to curatorship and tutorship accounts and accounts of unclaimed property. The net income of the Revenue Fund is paid monthly into the Cash Fund of the account of each shareholder. The net income of Diversified Fund is reinvested quarterly in the account of each of the fund's shareholders.

PUBLIC CURATOR (THE)NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006**2. ACCOUNTING POLICIES (cont'd)****Use of projections**

Preparing financial statements in keeping with the above-mentioned accounting policies requires that management make forecasts and assumptions regarding the declared amounts of assets and liabilities on the date the financial statements are drawn up as well as the amounts of revenues and expenses declared during the period declared. Real results may differ from the best forecasts made by management as additional information later becomes available.

3. CHANGE IN ACCOUNTING POLICY

Payables in the amount of \$5 146 603 at March 31, 2003 and \$1 699 353 at March 31, 2005 should have been recorded in the respective balance sheets for these fiscal years, thereby affecting the decrease in the net assets of accounts being administered for a total of \$6 845 956 at March 31, 2005.

4. GROUPED FUND INVESTMENTS

	Cash Fund		Revenue Fund	
	2006	2005	2006	2005
Short term				
Cash on hand	\$11 948 258	\$10 635 455	\$661 112	\$706 139
Short-term investments	89 577 146	97 600 347		
Interest and dividends receivable	618 907	524 794	544 454	397 425
Advance to Minister of Revenue of Québec	1 023 915			
Revenue Fund receivable, without interest or terms of repayment (Note 6)	239 984			
Diversified Fund receivable, without interest or terms of repayment (Note 6)	456 746			
	<u>103 864 956</u>	<u>108 760 596</u>	<u>1 205 566</u>	<u>1 103 564</u>
Long term *				
Bonds			24 835 259	26 587 367
Shares				
Mortgage certificates			1 233 341	1 482 568
			<u>26 068 600</u>	<u>28 069 935</u>
	<u>\$103 864 956</u>	<u>\$108 760 596</u>	<u>\$27 274 166</u>	<u>\$29 173 499</u>

**BREAKDOWN OF
GROUPED FUND INVESTMENTS****Accounts administered**

Curatorships and tutorships	\$49 027 537	\$46 269 780	\$27 274 166	\$29 172 071
Unclaimed property	54 837 419	62 490 816		1 428
	<u>\$103 864 956</u>	<u>\$108 760 596</u>	<u>\$27 274 166</u>	<u>\$29 173 499</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
2006	2005	2006	2005	2006	2005
\$1 748 946	\$1 834 558		\$47 920	\$14 358 316	\$13 224 072
1 262 703	927 176	\$124 859	149 441	89 702 005	97 749 788
		101 909	40 987	2 527 973	1 890 382
				1 023 915	
111 938				351 922	
				456 746	
3 123 587	2 761 734	226 768	238 348	108 420 877	112 864 242
57 436 179	49 342 931	5 732 967	5 962 349	88 004 405	81 892 647
38 407 391	37 095 048			38 407 391	37 095 048
2 218 980	2 615 180			3 452 321	4 097 748
98 062 550	89 053 159	5 732 967	5 962 349	129 864 117	123 085 443
\$101 186 137	\$91 814 893	\$5 959 735	\$6 200 697	\$238 284 994	\$235 949 685
\$101 186 137	\$91 814 893	\$5 959 735	\$6 200 697	\$177 487 840	\$167 256 744
				60 797 154	68 692 941
\$101 186 137	\$91 814 893	\$5 959 735	\$6 200 697	\$238 284 994	\$235 949 685

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

4. GROUPED FUND INVESTMENTS (cont'd)*** Long-term investment at March 31, 2006**

	<u>Terms</u>	<u>Interest rates</u>
Federal government bonds	5 – 28 years	4% - 5.75%
Provincial government bonds	2 – 38 years	4% - 6.50%
Corporate bonds	3 – 28 years	3.55% - 7%
Corporate shares		

Short-term investments include T-bills, discount notes and bankers' acceptances. Interest rates vary from 3.58% to 4.03%.

These investments mature at varying dates until August 2008.

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.

5. BILLS AND OTHER RECEIVABLES – MORTGAGE LOANS

A provision for bad debts of \$4 426 598 (\$4 764 534 in 2005) was deducted from the balance of bills and other receivables and mortgage loans.

Cash Fund	Revenue Fund	Diversified Fund	Registered Retirement Plan Fund	Total
2006	2006	2006	2006	2006
	\$4 888 560	\$13 923 771		\$18 812 331
	14 887 891	33 182 753	\$3 731 963	51 802 607
	6 292 149	12 548 635	2 001 004	20 841 788
		38 407 391		38 407 391
	\$26 068 600	\$98 062 550	\$5 732 967	\$129 864 117

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

6. GROUPED FUND PAYABLES

	Cash Fund		Revenue Fund	
	2006	2005	2006	2005
Bank overdraft				
Accounts payable	\$261 095	\$214 906	\$10 634	\$19 689
Owed to the Consolidated Revenue Fund, without interest or terms of repayment	1 168 331	873 991		
Owed to the Cash Fund, without interest or terms of repayment (Note 4)			239 984	
Owed to the Diversified Fund, without interest or terms of repayment (Note 4)			111 938	
Accounts payable to the Minister of Finance	564 320	1 571 860		
	<u>\$1 993 746</u>	<u>\$2 660 757</u>	<u>\$362 556</u>	<u>\$19 689</u>

**BREAKDOWN OF
GROUPED FUND PAYABLES****Accounts administered**

Curatorships and tutorships	\$941 111	\$1 131 960	\$362 556	\$19 688
Unclaimed property	1 052 635	1 528 797		1
	<u>\$1 993 746</u>	<u>\$2 660 757</u>	<u>\$362 556</u>	<u>\$19 689</u>

7. RE-EVALUATION OF ELEMENTS OF ASSETS AND LIABILITIES

The items regarding re-evaluation of elements of assets and liabilities represent the annual variation in the fair values of these different elements, with the exception of adjustments to the group funds presented separately.

8. REALIZED GROUPED FUND INVESTMENT INCOME

	Cash Fund		Revenue Fund	
	2006	2005	2006	2005
Revenue				
Interest on bonds and short-term investments	\$3 256 692	\$2 856 023	\$1 503 070	\$1 656 461
Dividends				
Gains (losses) on disposal of investments			(88 946)	(135 243)
	<u>3 256 692</u>	<u>2 856 023</u>	<u>1 414 124</u>	<u>1 521 218</u>
Expenses				
Administrative fees – Consolidated Revenue Fund	1 669 437	1 391 026	566 098	592 168
Fund managers' fees				
Taxes on administrative fees and other expenses	252 580	211 100	85 056	88 973
Daycare costs and other services	106 667	108 521	38 180	43 981
	<u>2 028 684</u>	<u>1 710 647</u>	<u>689 334</u>	<u>725 122</u>
Realized investment income	<u>\$1 228 008</u>	<u>\$1 145 376</u>	<u>\$724 790</u>	<u>\$796 096</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
2006	2005	2006	2005	2006	2005
		\$706		\$706	
\$22 859	\$50 558	28 779	\$28 082	323 367	\$313 235
				1 168 331	873 991
456 746				696 730	
				111 938	
				564 320	1 571 860
<u>\$479 605</u>	<u>\$50 558</u>	<u>\$29 485</u>	<u>\$28 082</u>	<u>\$2 865 392</u>	<u>\$2 759 086</u>

\$479 605	\$50 558	\$29 485	\$28 082	\$1 783 272	\$1 202 206
				1 082 120	1 556 880
<u>\$479 605</u>	<u>\$50 558</u>	<u>\$29 485</u>	<u>\$28 082</u>	<u>\$2 865 392</u>	<u>\$2 759 086</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
2006	2005	2006	2005	2006	2005
\$3 147 951	\$3 125 298	\$206 818	\$164 975	\$8 114 531	\$7 802 757
549 544	531 089			549 544	531 089
4 038 302	3 183 187	3 952	822	3 953 308	3 048 766
<u>7 735 797</u>	<u>6 839 574</u>	<u>210 770</u>	<u>165 797</u>	<u>12 617 383</u>	<u>11 382 612</u>
1 933 033	1 811 166	129 058	77 192	4 297 626	3 871 552
			23 664		23 664
290 438	272 128	9 034	5 403	637 108	577 604
80 691	84 423	9 298	12 772	234 836	249 697
<u>2 304 162</u>	<u>2 167 717</u>	<u>147 390</u>	<u>119 031</u>	<u>5 169 570</u>	<u>4 722 517</u>
<u>\$5 431 635</u>	<u>\$4 671 857</u>	<u>\$63 380</u>	<u>\$46 766</u>	<u>\$7 447 813</u>	<u>\$6 660 095</u>

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

8. REALIZED GROUPED FUND INVESTMENT INCOME (cont'd)**BREAKDOWN OF REALIZED INVESTMENT INCOME**

	Cash Fund		Revenue Fund	
	2006	2005	2006	2005
Accounts administered				
Curatorships and tutorships	\$500 250	\$412 101	\$724 772	792 381
Unclaimed property	703 030	706 182	18	3 715
	<u>1 203 280</u>	<u>1 118 283</u>	<u>724 790</u>	<u>796 096</u>
Minister of Finance (Note 11)	<u>24 728</u>	<u>27 093</u>		
	<u><u>\$1 228 008</u></u>	<u><u>\$1 145 376</u></u>	<u><u>\$724 790</u></u>	<u><u>\$796 096</u></u>

9. CHANGE IN UNREALIZED GROUPED FUND INVESTMENT GAINS (LOSSES)

	Revenue Fund	
	2006	2005
Unrealized cumulative investment gains (losses) at the beginning of the fiscal year	\$209 006	\$604 885
Change in unrealized investment gains (losses) resulting from fluctuations in fair value during the fiscal year	<u>(504 857)</u>	<u>(395 879)</u>
Unrealized cumulative investment gains (losses) at the end of the fiscal year	<u><u>\$(295 851)</u></u>	<u><u>\$209 006</u></u>
Cost of bonds	\$25 150 008	\$26 366 020
Cost of shares		
Cost of mortgage certificates	\$1 214 443	\$1 450 810

10. TRANSFER OF CURATORSHIP AND TUTORSHIP ACCOUNTS TO UNCLAIMED PROPERTY

The account balances of persons who died without heirs are transferred to unclaimed property six months after their death.

Diversified Fund		Registered Retirement Plan Fund		Total	
2006	2005	2006	2005	2006	2005
\$5 431 635	\$4 671 857			\$6 656 657	\$5 876 339
		\$63 380	\$46 766	766 428	756 663
<u>5 431 635</u>	<u>4 671 857</u>	<u>63 380</u>	<u>46 766</u>	<u>7 423 085</u>	<u>6 633 002</u>
				24 728	27 093
<u>\$5 431 635</u>	<u>\$4 671 857</u>	<u>\$63 380</u>	<u>\$46 766</u>	<u>\$7 447 813</u>	<u>\$6 660 095</u>

Diversified Fund		Registered Retirement Plan Fund		Total	
2006	2005	2006	2005	2006	2005
\$10 004 731	\$9 062 927	\$3 718	\$14 051	\$10 217 455	\$9 681 863
<u>3 818 490</u>	<u>941 804</u>	<u>(94 241)</u>	<u>(10 333)</u>	<u>3 219 392</u>	<u>535 592</u>
<u>\$13 823 221</u>	<u>\$10 004 731</u>	<u>\$(90 523)</u>	<u>\$3 718</u>	<u>\$13 436 847</u>	<u>\$10 217 455</u>

\$57 150 725	\$48 059 980	\$5 823 489	\$5 958 631	\$88 124 222	\$80 384 631
\$24 914 642	\$28 484 141			\$24 914 642	\$28 484 141
\$2 174 094	\$2 548 406			\$3 388 537	\$3 999 216

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

11. ACCOUNTS PAYABLE TO THE MINISTER OF FINANCE

In the absence of an administrative beneficiary, and in all cases where property is administered on behalf of the State, the amounts generated by the liquidation of goods must be remitted to the Minister of Finance. These amounts are presented as accounts payable to the Minister of Finance until they have been remitted by the Public Curator.

When beneficiaries are entitled to recover the amounts remitted to the Minister of Finance, the amounts to be remitted plus interest as stipulated in the Act are recorded as a reduction in the accounts payable to the Minister of Finance.

12. CONTINGENCIES

Various legal and non-legal businesses involving the Public Curator is currently under way. The Public Curator cannot foresee the outcome of these disputes or estimate the value of financial compensation that might result.

13. SUBSEQUENT EVENT

Bill 120, the Act to abolish certain public bodies and transfer administrative responsibilities (R.S.Q., chapter 44) presented on December 16, 2005 in the National Assembly provides for the transfer of responsibility for the temporary administration of property to the Minister of Revenue as of April 1, 2006. This property corresponds to the unclaimed property administered by the Public Curator.

14. COMPARATIVE FIGURES

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

PUBLIC CURATOR (THE)

MANAGEMENT'S REPORT

The financial statements of the Public Curator of Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Public Curator acknowledges that he is responsible for managing 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of the audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to his audit.

Diane Lavallée
Public Curator of Québec

Sylvain Gendreau
Director, General of Administration

Pierre Roy
Director, Financial and Material Resources

Montréal, December 8, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Public Curator of Québec as at March 31, 2006, the results and change in net assets of accounts administered statements for the year then ended. These financial statements are the responsibility of the Public Curator. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Public Curator's financial position as at March 31, 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 8, 2006

ÉCOLE NATIONALE DE POLICE DU QUÉBEC
(R.S.Q., c. P-13.1)

STATEMENT OF INCOME, EXPENSES AND EQUITY
for the year ended June 30, 2005

	2005	2004
REVENUES		
Police force contributions (Note 11)	\$9 202 072	\$9 131 417
Gouvernement du Québec subsidy		
Rent	7 339 600	7 458 025
Research project	82 801	28 893
Lodging (Notes 3 and 11)	3 814 411	3 459 076
Training (Notes 3 and 11))	5 292 081	4 694 317
Interest	22 124	22 984
Other	257 622	127 900
	<u>26 010 711</u>	<u>24 922 612</u>
EXPENSES		
Salaries and fringe benefits (Note 4)	13 690 719	13 228 401
Transportation and communications	591 460	663 230
Professional services	993 421	838 140
Maintenance and repairs	167 443	174 907
Rent – Société immobilière du Québec	7 764 747	7 476 906
Rental of lodgings and other	215 143	270 943
Material, teaching materials and other (Note 5)	1 391 105	1 423 977
Depreciation of fixed assets	1 015 770	899 945
	<u>25 829 808</u>	<u>24 976 449</u>
EXCESS REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	180 903	(53 837)
EQUITY, BEGINNING OF YEAR	<u>777 149</u>	<u>830 986</u>
EQUITY, END OF YEAR	<u>\$958 052</u>	<u>\$777 149</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

BALANCE SHEET
as at June 30, 2005

	2005	2004
ASSETS		
Current assets		
Cash on hand	\$3 595 887	\$3 585 587
Accounts receivable (Note 11)	2 235 908	2 142 397
Police force contribution receivable		
First instalment	290 767	183 398
Second instalment	2 940 600	2 772 853
Gouvernement du Québec subsidies receivable		
Rent		7 432 100
Research project		6 495
Prepaid rent - Société immobilière du Québec	5 127 011	
Inventory	446 763	466 497
	<u>14 636 936</u>	<u>16 589 327</u>
Fixed assets (Note 6)	<u>3 016 364</u>	<u>3 220 132</u>
	<u>\$17 653 300</u>	<u>\$19 809 459</u>
LIABILITIES		
Current liabilities		
Borrowing from Financing Fund (Note 7)		\$1 831 296
Accounts payable and accruals		
Wages	\$1 124 286	591 996
Rent – Société immobilière du Québec		900 977
Other	1 352 161	1 528 532
Provision for vacation time	753 885	711 633
Deferred revenue (Note 8)		
Police force contributions	7 107 131	6 833 029
Gouvernement du Québec subsidy	5 296 575	5 574 075
Other	337 817	310 750
	<u>15 971 855</u>	<u>18 282 288</u>
Long-term liabilities		
Provision for sick leave (Note 9)	723 393	750 022
	<u>16 695 248</u>	<u>19 032 310</u>
EQUITY	<u>958 052</u>	<u>777 149</u>
	<u>\$17 653 300</u>	<u>\$19 809 459</u>
COMMITMENTS (Note 10)		

For the Board of Directors,
Robert Nelson, Chairman, Board of Directors
Michel Beaudoin, Director General

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions. The cash flow statement is not shown as it would not provide any useful additional information on the École's cash flow during the year.

Inventory

Office supplies, food items, ammunition and clothing are valued according to the specific identification method.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following periods:

Furniture and equipment	5 and 10 years
Automotive equipment	5 years
Leasehold improvements	5 years
Computer equipment	3 years
Computer software	3 and 5 years

Pension plans

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

3. LODGING AND TRAINING

	Lodging		Training	
	2005	2004	2005	2004
Rookie training	\$1 757 330	\$1 708 982	\$2 042 864	\$1 945 234
Police officer training	1 123 637	949 251	1 106 392	837 612
Native training	195 046	162 375	599 011	553 274
Customized training	163 436	203 480	826 886	760 081
Assessment centre for police personnel	58 099	38 992	716 928	598 116
Other	516 863	395 996		
	<u>\$3 814 411</u>	<u>\$3 459 076</u>	<u>\$5 292 081</u>	<u>\$4 694 317</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005**4. SALARIES AND FRINGE BENEFITS**

	2005	2004
Police officers – Sûreté du Québec	\$594 090	\$652 615
Municipal police officers	1 321 250	1 209 308
Instructors and lecturers	315 215	487 669
Other employees	11 460 164	10 878 809
	<u>\$13 690 719</u>	<u>\$13 228 401</u>

5. MATERIAL, TEACHING MATERIALS AND OTHER

	2005	2004
Teaching materials	\$654 534	\$628 054
Foodstuffs and dwelling	561 523	509 331
Stationery, office supplies and articles	120 357	204 738
Furniture and equipment	54 691	81 854
	<u>\$1 391 105</u>	<u>\$1 423 977</u>

6. FIXED ASSETS

	2005		2004
	Cost	Accumulated depreciation	Net
Fixed assets			
Furniture and equipment	\$3 597 499	\$1 930 773	\$1 666 726
Automotive equipment	1 360 675	961 383	399 292
Leasehold improvements	771 051	632 194	138 857
Computer equipment	1 080 854	893 985	186 869
	<u>6 810 079</u>	<u>4 418 335</u>	<u>2 391 744</u>
Intangible assets			
Software	1 227 243	602 623	624 620
	<u>\$8 037 322</u>	<u>\$5 020 958</u>	<u>\$3 016 364</u>
			<u>\$3 220 132</u>

Acquisitions of fixed assets totalled \$812 002 (2004: \$1 661 715). The disposal of fixed assets generated no gain on disposal (2004: gains of \$5 789) and no proceeds on disposition (2004: proceeds of \$5 789).

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 Financing Fund.

A credit line agreement with the Gouvernement du Québec's Financing Fund provides for the use of a daily interest rate that is equivalent to banker's one-month acceptances plus 0.3%. At June 30, 2005, the École had no short-term borrowings. At June 30, 2004, the École had a loan from the Gouvernement du Québec's Financing Fund bearing interest at 2.35%.

Further, the École has a credit line of \$300 000 with a financial institution at the prime rate and expiring on October 31, 2005. At June 30, 2005, the École had no borrowings in this regard.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005**8. DEFERRED REVENUE**

The deferred revenue related to police force contributions represents the portion of the total contribution that will be earned in the following fiscal year.

The deferred revenue related to 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 dwelling income received in advance for the basic police-training program.

9. FUTURE FRINGE BENEFITS**Pension Plans**

The staff members of the École participate in the Pension Plan for Senior Official (PPSO), Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) or Pension of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The École assumes employer contributions for members of its staff who were released by the Sûreté du Québec and who contribute to the SPMSQ. Employer contributions assumed by the École and charged to the year-end statement amount to \$446 174 (2004: \$398 384). The École's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2005	2004
Opening balance	\$750 022	\$695 020
Expenditure for the year	131 824	239 018
Benefits paid during the year	(158 453)	(184 016)
Closing balance	<u>\$723 393</u>	<u>\$750 022</u>

10. COMMITMENTS

The École is committed to the Société immobilière du Québec, under long-term leases terminating in 2028, to rent buildings and, through various contracts expiring until 2010, to rent goods and services.

The fiscal year's expenditure for building rental is \$7 764 747 (2004: \$7 476 906) and for goods and services rental related to these commitments is \$339 367 (2004: \$332 578). Minimum future payments are as follows:

Year	Buildings	Goods and services
2006	\$7 502 228	\$286 305
2007	7 878 228	273 345
2008	7 878 228	234 462
2009	7 878 228	234 462
2010	7 878 228	234 462
2011 and thereafter	<u>144 408 104</u>	
	<u>\$183 423 244</u>	<u>\$1 263 036</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

11. RELATED PARTY TRANSACTIONS

	2005	2004
Revenue		
Police force contributions	\$3 572 492	\$3 585 916 \$
Lodging	921 333	674 236
Training	1 269 130	941 946
Accounts receivable	675 044	713 895

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

12. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value.

13. COMPARATIVE FIGURES

Certain figures in the financial statements ending June 30, 2004 were reclassified for consistency with the presentation adopted in 2005. Further, the Gouvernement du Québec subsidy receivable for rent and the corresponding deferred revenues at June 30, 2004 increased by \$5 574 075.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the École nationale de police du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

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

Michel Beaudoin
Director General

Daniel Jean, CMA
Director of Administrative Affairs

Nicolet, September 9, 2005

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, 2005 and the income, expenses and equity statement for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2005 and the results of its operations and the cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 9, 2005

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC
(R.S.Q., c. s-3.4)

INCOME, EXPENSES AND SURPLUS STATEMENT
for the year ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES		
Gouvernement du Québec subsidy	\$1 200 000	\$1 183 800
Training	283 972	116 070
Interest	6 621	13 179
	<u>1 490 593</u>	<u>1 313 049</u>
EXPENSES		
Salaries and fringe benefits	868 217	985 220
Travel costs	43 998	48 036
Communication	25 015	21 222
Professional services	83 164	80 403
Advertising and promotion	67 582	35 275
Rent	113 252	112 680
Development of training programs and teaching materials	54 566	31 969
Furniture and supplies	24 399	47 244
Teaching materials	41 980	51 818
Information systems	91 286	49 838
Financial charges	2 814	1 895
Depreciation of fixed assets	129 307	124 372
Gain on disposal of assets	(600)	
	<u>1 544 980</u>	<u>1 589 972</u>
EXCESS EXPENSES OVER REVENUES	(54 387)	(276 923)
SURPLUS, BEGINNING OF YEAR	<u>205 682</u>	<u>482 605</u>
SURPLUS, END OF YEAR	<u>\$151 295</u>	<u>\$205 682</u>

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

BALANCE SHEET
as at June 30, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash on hand	\$60 636	\$42 769
Accounts receivable	47 391	16 857
Prepaid expenses	33 204	10 734
Stocks	46 674	
	<u>187 905</u>	<u>70 360</u>
Fixed assets (Note 3)	<u>175 178</u>	<u>266 122</u>
	<u>\$363 083</u>	<u>\$336 482</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$211 788	\$130 800
SURPLUS	<u>151 295</u>	<u>205 682</u>
	<u>\$363 083</u>	<u>\$336 482</u>

On behalf of the Board of Directors,
Serge Tremblay
Chairman, Board of Directors

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions. The cash flow statement is not shown as it would not provide any useful additional information regarding the École's cash flow during the year.

Inventory

Inventories of books and textbooks are assessed at cost or net realization value, whichever is less. Cost is calculated using the specific identification method.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Fixed 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 interenterprise government defined-benefit plans, given that the École lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FIXED ASSETS

	2005			2004
	Cost	Accumulated depreciation	Net value	Net Value
Fixed assets				
Leasehold improvements	\$211 245	\$170 352	\$40 893	\$83 142
Computer equipment	158 861	137 598	21 263	65 998
Furniture and equipment	144 951	84 414	60 537	88 051
Other equipment	9 308	8 403	905	3 812
	<u>524 365</u>	<u>400 767</u>	<u>123 598</u>	<u>241 003</u>
Tangible assets				
Software	<u>65 770</u>	<u>14 190</u>	<u>51 580</u>	<u>25 119</u>
	<u>\$590 135</u>	<u>\$414 957</u>	<u>\$175 178</u>	<u>\$266 122</u>

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

3. FIXED ASSETS

Fixed asset acquisitions for the fiscal year totalled \$38 363 (\$110 804 in 2004).

4. PENSION PLANS

The staff members of the École participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death. Employer contributions charged to the year-end statement amount to \$32 461 (2004: \$27 479). The École's liability towards these Government plans is restricted to its contributions as an employer.

5. RELATED PARTY TRANSACTIONS

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

6. FINANCIAL INSTRUMENTS

The fair value of the cash, receivables, payables and accrued expenses equals their book value, given that they mature in the short term.

7. COMPARATIVE FIGURES

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

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the École nationale des pompiers du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

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

Yves Desjardins
Director General

Antoine Alonzo, CGA
Director of Administrative Services

Laval, September 16, 2005

ÉCOLE NATIONALE DES POMPIERS DU QU**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, 2005 and the income, expenses and surplus statement for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2005 and the results of its operations and the cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 16, 2005

FINANCEMENT-QUÉBEC
(R.S.Q., c. F-2.01)

INCOME AND RETAINED EARNINGS
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
NET INTEREST INCOME		
Interest on loans	517 404	469 274
Amortization of discounts and premiums on loans	668	608
Interest on borrowings and advances	(524 203)	(474 801)
Amortization of discounts and premiums on borrowings and advances	8 233	8 311
Interest on short-term investments	<u>4 183</u>	<u>5 627</u>
	----- 6 285	----- 9 019
OTHER OPERATIONS		
Net issuing costs charged to borrowers	5 661	3 756
Administration costs charged to borrowers	<u>2 543</u>	<u>2 054</u>
	----- 8 204	----- 5 810
	<u>14 489</u>	<u>14 829</u>
OPERATING AND ADMINISTRATIVE EXPENSES		
Wages, salaries and allowances	245	231
Professional, administrative and other services	89	77
Transportation and communications		2
Service agreement with the Financing Fund	577	572
Depreciation of fixed assets	1	2
Other	<u>10</u>	<u>12</u>
	----- 922	----- 896
NET INCOME	13 567	13 933
RETAINED EARNINGS, BEGINNING OF YEAR	<u>53 081</u>	<u>39 148</u>
RETAINED EARNINGS, END OF YEAR	<u><u>66 648</u></u>	<u><u>53 081</u></u>

FINANCEMENT-QUÉBEC**BALANCE SHEET**

(in thousands of dollars)

	March 31, 2006	March 31, 2005
ASSETS		
Loans (Note 3)	11 014 245	9 538 971
Accrued interest on loans	171 082	164 499
	<u>11 185 327</u>	<u>9 703 470</u>
Cash on hand	100	5 959
Accounts receivable	302	222
Fixed assets		1
	<u>11 185 729</u>	<u>9 709 652</u>
LIABILITIES		
Borrowings (Note 4)	9 914 680	7 695 580
Advances from the Consolidated Revenue Fund (Note 5)	1 011 154	1 757 922
Interest accrued on borrowings and advances	168 852	162 418
Premiums and discounts deferred on borrowings and advances	12 534	20 768
Accounts payable	56	7 516
Deferred revenue	1 805	2 367
	<u>11 109 081</u>	<u>9 646 571</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	100	100
Contributed surplus	9 900	9 900
Retained earnings	66 648	53 081
	<u>11 185 729</u>	<u>9 709 652</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Nathalie Parenteau, Executive Vice-President
 Bernard Turgeon, President and CEO

FINANCEMENT-QUÉBEC
CASH FLOW STATEMENT
 for the year ended March 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income	13 567	13 933
Adjustments for:		
Amortization of discounts and premiums on loans	(668)	(608)
Amortization of discounts and premiums on borrowings and advances	(8 233)	(8 311)
Depreciation of fixed assets	<u>1</u>	<u>2</u>
	4 667	5 016
Change in non-cash items linked to operations:		
Accrued interest on loans	(6 583)	(8 565)
Accounts receivable	(80)	1
Accrued interest on borrowings and advances	6 434	26 006
Accounts payable	(7 460)	7 461
Deferred revenue	<u>(562)</u>	<u>(616)</u>
	(8 251)	24 287
Cash flows used for operating activities	<u>(3 584)</u>	<u>29 303</u>
INVESTMENT ACTIVITIES		
Loans	(2 548 898)	(2 054 163)
Loans repayment	<u>1 074 292</u>	<u>494 360</u>
Cash flows used for investment activities	<u>(1 474 606)</u>	<u>(1 559 803)</u>
FINANCING ACTIVITIES		
Short-term borrowings	7 896 285	8 861 339
Long-term borrowings	2 000 000	1 900 000
Repayment of advances from the Consolidated Revenue Fund	(746 769)	(3 848)
Repayment of short-term borrowings	<u>(7 677 185)</u>	<u>(9 221 076)</u>
Cash flows provided by financing activities	<u>1 472 331</u>	<u>1 536 415</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(5 859)	5 915
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 959</u>	<u>44</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	<u>100</u>	<u>5 959</u>

The notes are an integral part of these financial statements.

FINANCEMENT-QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

Financement-Québec (the “Corporation”) was implemented by the Act respecting Financement-Québec (R.S.Q., c. F-2.01), which came into effect on October 1, 1999. The Corporation is a legal person with partnership capital and an agent of the State.

The Corporation is mandated by its incorporating act to provide financial services to public agencies. It finances them directly by granting them loans or issuing debt instruments on their behalf. It advises them in order to facilitate their access to credit and minimize the cost of financing and, for this purpose, develops financing programs. It may also manage the financial risks of these agencies, notably cash flow risks and foreign exchange risks. The corporation may also provide public agencies with technical services, notably related to financial analysis and management.

The Corporation charges borrowers loan flotation costs to offset those incurred by the Corporation on borrowings contracted. The Corporation also charges borrowers administration costs. The amounts charged are subject to Government approval.

Financement-Québec issues debt instruments that are guaranteed by the Gouvernement du Québec.

Financement-Québec is not subject to Québec or Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed assets

The computer equipment owned by Financement-Québec is recorded at acquisition cost and amortized over its service life using the straight-line method and a rate of 20%.

Deferred costs and revenue

Deferred costs and revenue are amortized over the duration remaining for each instrument according to the straight-line method.

Currency translation

Borrowings and advances from the Consolidated Revenue Fund denominated in foreign currency and repayable in Canadian currency under swap agreements are determined at the exchange rate stipulated in these agreements.

Cash and cash equivalents

The Corporation’s policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

3. LOANS

	March 31, 2006	March 31, 2005
Borrowers		
School boards	4 055 874	3 631 760
Cegeps	1 397 474	1 280 028
Development establishments and agencies of the health and social services network	3 822 944	3 340 249
Universities and other	1 737 953	1 286 934
	<u>11 014 245</u>	<u>9 538 971</u>

Repayable in Canadian currency

Maturity date Fiscal year	Amount	Amount
2006		525 816
2007	807 972	856 729
2008	350 455	374 855
2009	1 689 158	1 814 014
2010	1 952 933	2 088 622
2011 – 2031	6 213 727	3 878 935
	<u>11 014 245</u>	<u>9 538 971</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 \$1 917 502 at March 31, 2006.

4. BORROWINGS

	March 31, 2006		March 31, 2005
Maturity date Fiscal year	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2006			168 300
2007	1 385 580	5.2236 to 6.456; ¹	998 180
2008	500 000	3.74 to 4.107; variable ²	500 000
2009	1 105 500	4.7814 to 5.9515; variable ²	1 105 500
2010	1 500 000	3.849 to 4.8683; variable ²	1 500 000
2011	400 000	3.779 to 4.2075	
2012	1 900 000	4.16 to 5.2764; variable ²	1 000 000
2013	200 000	4.875 to 5.0625	200 000
2014	500 000	4.25 to 4.26; variable ²	
2015	200 000	4.5745 to 4.7203	200 000
2016	509 400	4.2978 to 6.393	309 400
	<u>8 200 480</u>		<u>5 981 380</u>
Amounts carried forward			

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

4. BORROWINGS (cont'd)

Maturity date Fiscal year	March 31, 2006		March 31, 2005
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
Amounts brought forward	8 200 480		5 981 380
Plus: Swap agreements in Canadian currency	<u>1 714 200</u>		<u>1 714 200</u>
Total in Canadian currency	<u>9 914 680</u>		<u>7 695 580</u>
Repayable in US currency			
2013	782 000	5.391 to 5.82	782 000
Less: Swap agreements in Canadian currency	<u>782 000</u>		<u>782 000</u>
Total in US currency	<u></u>		<u></u>
Repayable in Euros			
2009	932 200	4.9005 to 5.861; variable ³	932 200
Less: Swap agreements in Canadian currency	<u>932 200</u>		<u>932 200</u>
Total in Euros	<u></u>		<u></u>
Total borrowings	<u>9 914 680</u>		<u>7 695 580</u>

None of these borrowings are repayable before maturity. Borrowings maturing during the fiscal year ended March 31, 2007 include short-term borrowings in the amount of \$387.4 million and long-term borrowings in the amount of \$998.2 million. Borrowings maturing as of the fiscal year ending March 31, 2008 are long-term borrowings. All long-term borrowing are underwritten by Québec.

1 Short-term borrowings bear interest at rates varying from 3.74971% to 3.75699%.

2 Bank acceptance rates, three months plus 0.065%, 0.268%, 0.1%, 0.005% and 0.075%

3 Bank acceptance rates, three months plus 0.387706% and 0.319%.

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

5. ADVANCES FROM THE CONSOLIDATED REVENUE FUND

Maturity date Fiscal year	March 31, 2006		March 31, 2005
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2006			742 919
2008	395 508	6.50	395 508
2009	5 000	6.98	5 000
2010	389 073	5.50 to 11.00	389 647
2012	65 962	9.5	67 496
2023	152 145	9.375	153 886
	<u>1 007 688</u>		<u>1 754 456</u>
Plus: Swap agreements in Canadian currency	<u>3 466</u>		<u>3 466</u>
Total in Canadian currency	<u>1 011 154</u>		<u>1 757 922</u>
Repayable in US currency			
2007	3 466	Variable ¹	3 466
Less: Swap agreements in Canadian currency	<u>3 466</u>		<u>3 466</u>
Total in US currency			
Total advances from the Consolidated Revenue Fund	<u>1 011 154</u>		<u>1 757 922</u>

¹ Bank acceptance rates, three months plus 0.277%.

The amounts of capital payments to make on advances from the Consolidated Revenue Fund over the next five fiscal years break down as follows:

<u>Fiscal year</u>	<u>Amount</u>
2007	7 315
2008	399 356
2009	8 848
2010	390 624
2011	3 274

6. FINANCIAL INSTRUMENTS

Financement-Québec uses fixed-rate swap agreements to manage interest-rate risks related to its financial intermediation activities. Interest-rate swap agreements give rise to periodic exchange of interest payments without exchange at the nominal reference amount on which the payments are based and are recorded as adjustment in interest expenses on the borrowing instrument covered. The volume of interest-rate swap agreements in Canadian currency at March 31, 2006 was \$13 960 million (March 31, 2005: \$10 719 million).

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

6. FINANCIAL INSTRUMENTS (cont'd)

Financement-Québec also uses swap agreements to manage exchange risks related to certain borrowing instruments denominated in foreign currency. The Corporation designates swap agreements as coverage for its firm commitment to pay the interest and principal on the debt denominated in foreign currency, failing which it would be exposed to an exchange risk. The exchange gains and losses on the principal subject to swap agreements are offset by the corresponding exchange gains and losses on the debt denominated in foreign currency.

The fair value of Financement-Québec assets and liabilities at March 31, 2006 was assessed by capitalizing cash flows at market rates for similar fixed-rate securities. Swap and interest-rate agreements are used only for coverage purposes.

	March 31, 2006		March 31, 2005	
	Book value	Fair value	Book value	Fair value
Borrowings and advances				
Borrowings	9 915	9 856	7 696	7 842
Consolidated Revenue Fund advances	1 011	1 139	1 758	1 934
Swap agreements		249		108
Interest-rate swap agreements		(20)		27
Total borrowings and advances	<u>10 926</u>	<u>11 224</u>	<u>9 454</u>	<u>9 911</u>
Loans				
Total loans	<u>11 014</u>	<u>11 230</u>	<u>9 539</u>	<u>9 896</u>

The value of other asset and liability financial instruments corresponds essentially to the book value, given their nature or the fact that they mature in the short term.

7. CAPITAL STOCK**Description**

Authorized:

1 000 000 common shares with a
par value of \$100 each

Issued and fully paid:

1 000 common shares

\$100 000

The Corporation's shares are held by Québec's Minister of Finance.

FINANCEMENT-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

8. CASH FLOWS

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents		
Cash on hand	<u>100</u>	<u>5 959</u>
	<u>100</u>	<u>5 959</u>

The interest paid by the Corporation during the fiscal year totalled \$518 362 498 (2005: \$448 997 970).

9. RELATED PARTY TRANSACTIONS

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

10. COMPARATIVE FIGURES

Certain 2004-2005 figures were reclassified for consistency with the presentation adopted in 2005-2006.

FINANCEMENT-QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Financement-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Corporation's management acknowledges that it is responsible for conducting affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Nathalie Parenteau
Executive Vice-President

Bernard Turgeon
President and CEO

Québec, May 30, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Financement-Québec as at March 31, 2006, and the income and retained earnings and cash flow statements for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the Commission's financial position as at March 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 30, 2006

FONDATION DE LA FAUNE DU QUÉBEC
(R.S.Q., c. C-61.1)

INCOME AND CHANGES IN FUND BALANCES STATEMENT
for the year ended March 31, 2006

	General Fund		Fixed Assets Fund		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Contributions collected on the issue of fishing, hunting and trapping licenses	\$ 3 033 043	\$3 092 008			\$3 033 043	\$3 092 008
Government contributions to employment programs		1 800 534				1 800 534
Fundraising (Note 3)	769 712	842 724			769 712	842 724
Other contributions (Note 3)	573 356	274 023	\$69 162	\$1 345 400	642 518	1 619 423
Interest	67 604	100 932	5 330	14 237	72 934	115 169
	<u>4 443 715</u>	<u>6 110 221</u>	<u>74 492</u>	<u>1 359 637</u>	<u>4 518 207</u>	<u>7 469 858</u>
EXPENSES (Note 4)						
Cost of wildlife projects	3 332 860	3 065 232	714 539	1 379 639	4 047 399	4 444 871
Cost of job creation projects		1 811 893				1 811 893
Fundraising expenses	428 546	532 538			428 546	532 538
Administrative expenses	543 807	514 095			543 807	514 095
	<u>4 305 213</u>	<u>5 923 758</u>	<u>714 539</u>	<u>1 379 639</u>	<u>5 019 752</u>	<u>7 303 397</u>
EXCESS (DEFICIENCY) REVENUES OVER EXPENSES	138 502	186 463	(640 047)	(20 002)	(501 545)	166 461
OPENING FUND BALANCES	1 506 696	1 370 233	2 674 697	2 644 699	4 181 393	4 014 932
Inter-fund transfers (Note 5)	<u>(25 000)</u>	<u>(50 000)</u>	<u>25 000</u>	<u>50 000</u>		
CLOSING FUND BALANCES	<u>\$1 620 198</u>	<u>\$1 506 696</u>	<u>\$2 059 650</u>	<u>\$2 674 697</u>	<u>\$3 679 848</u>	<u>\$4 181 393</u>

The notes are an integral part of these financial statements.

FONDATION DE LA FAUNE DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006			2005
	General Fund	Fixed Assets Fund	Total	Total
ASSETS				
Current assets				
Cash on hand	\$18 812	\$2 862	\$21 674	\$37 557
Term deposits (average rate of 4.10%)	1 132 065	120 000	1 252 065	1 504 402
Accounts receivable (Note 6)	188 612	7 439	196 051	333 133
Accrued interest	36 736	281	37 017	60 905
Inventory	19 432		19 432	17 410
Prepaid expenses	19 384	8 623	28 007	25 687
	<u>1 415 041</u>	<u>139 205</u>	<u>1 554 246</u>	<u>1 979 094</u>
Contributions receivable (Note 7)		455 626	455 626	571 959
Investments (Note 8)	400 000		400 000	400 000
Fixed assets (Note 9)	<u>179 738</u>	<u>1 920 445</u>	<u>2 100 183</u>	<u>2 508 974</u>
	<u>\$1 994 779</u>	<u>\$2 515 276</u>	<u>\$4 510 055</u>	<u>\$5 460 027</u>
LIABILITIES				
Current liabilities				
Accounts payable and accruals	\$350 265		\$350 265	\$540 321
Excess contributions (Note 11)				221 317
Deferred subscriptions	24 317		24 317	13 578
Deferred revenue				1 529
	<u>374 582</u>		<u>374 582</u>	<u>776 745</u>
Bank borrowings (Note 12)		\$455 626	455 626	501 889
	<u>374 582</u>	<u>455 626</u>	<u>830 208</u>	<u>1 278 634</u>
FUND BALANCES				
Invested in fixed assets	179 738	1 920 445	2 100 183	2 508 974
Reserved for partners (Note 13)	491 402		491 402	145 305
Allocations for wildlife projects:				
Balance committed (Note 14)	949 057	6 139	955 196	1 419 500
Free balance		133 066	133 066	107 614
	<u>1 620 197</u>	<u>2 059 650</u>	<u>3 679 847</u>	<u>4 181 393</u>
	<u>\$1 994 779</u>	<u>\$2 515 276</u>	<u>\$4 510 055</u>	<u>\$5 460 027</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
André Duchesne, Treasurer

FONDATION DE LA FAUNE DU QUÉBEC

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006			2005
	General Fund	Fixed Assets Fund	Total	Total
OPERATING ACTIVITIES				
Receipts				
Contributions - users, partners, clients and members	\$4 241 061		\$4 241 061	\$3 982 199
Government contributions	243 697	\$224 669	468 366	2 602 979
Interest earned	86 799	10 023	96 822	119 676
Disbursements				
Contributions to projects	(2 796 976)	(181 858)	(2 978 834)	(5 514 161)
Suppliers and staff members	(1 666 375)	(77 825)	(1 744 200)	(1 718 227)
Repayment of contribution overpayments		(221 317)	(221 317)	
Interest paid	(15 831)		(15 831)	(2 961)
Net fund (outflows) inflows	92 375	(246 308)	(153 933)	(530 495)
INVESTMENT ACTIVITIES				
Net fund outflows				
Acquisition of fixed assets	(68 024)		(68 024)	(130 229)
FINANCING ACTIVITIES				
New borrowings		71 707	71 707	501 889
Repayment of borrowings		(117 970)	(117 970)	
Inter-fund transfer	(25 000)	25 000		
Net fund (outflows) inflows	(25 000)	(21 263)	(46 263)	501 889
DECREASE IN CASH AND CASH EQUIVALENTS	(649)	(267 571)	(268 220)	(158 835)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1 151 526	390 433	1 541 959	1 700 794
CASH AND CASH EQUIVALENTS, END OF YEAR *	\$1 150 877	\$122 862	\$1 273 739	\$1 541 959

* 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 FINANCIAL STATEMENTS**March 31, 2006

1. CONSTITUTION, PURPOSE AND FUNDING

The Fondation de la faune du Québec, a non-profit corporation, was established under the Act respecting the conservation and development of wildlife (R.S.Q., chapter C-61.1) for the purpose of promoting the conservation and development of wildlife and wildlife habitats.

The Fondation is recognized as a charitable organization under provincial and federal tax legislation and is not subject to income tax.

A contribution toward the funding of the Fondation, the amount of which is determined by regulation of the Government, is collected on the issue of fishing, hunting and trapping licences and paid to the Fondation by the Ministère des Ressources naturelles et de la Faune.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

La Fondation uses the fund accounting method to record contributions.

The Fondation's current operations are included in the General Fund.

The Fixed Assets Fund records transactions related to the acquisition of land and development and equipment rights for wildlife habitat protection purposes. The Fund's net assets are reserved for the acquisition of fixed assets for the Fondation or third parties and for payment of related expenses. These fixed assets may not be disposed of, in whole or in part, without the consent of the partners who contributed to their purchase. This fund is therefore a designated fund.

Contribution recording

Contributions allocated to operations are entered as revenue in the General Fund in the year during which the related expenditures are made. Contributions and interest allocated to fixed assets are entered as revenue in the Fixed Assets Fund.

Non-designated contributions are entered as revenue in the year during which they are made.

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.

Inventory

Inventories are assessed at the lowest value (cost or net realization value). Cost is calculated according to the first in, first out (FIFO) method.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

Equipment is recorded at cost and amortized over its useful life on a straight-line basis at rates of 20 and 33 1/3%.

Works of art

Works of art—primarily wildlife paintings—are recorded at cost, except for those which are donated or received in exchange for services rendered, which are recorded, on the acquisition date, at their market value. They are not amortized.

Land

Land is entered at cost, except donated land, which is recorded, on the date of acquisition, at its market value or a value based on its municipal assessment.

Development rights

Development rights held under acts of servitude for wildlife are recorded at cost. They are not amortized.

Cash and cash equivalents

The Fondation's policy consists in presenting under cash and cash equivalents cash on hand, bank overdraft and term deposits that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

Pension plans

The Fondation participates in interenterprise government defined-benefits plans. Since it lacks sufficient information to apply the accounting procedure for defined-benefit plans, the Fondation applies the accounting procedure for defined-contribution plans.

3. FUNDRAISING AND OTHER CONTRIBUTIONS

	2006			2005
	Fundraising	Other contributions		Total
		Operations	Fixed assets	
Governments and municipalities	\$57 426	\$182 997	\$61 723	\$302 146
Enterprises	495 989	270 855		766 844
Individuals	144 772	5 144	4 870	154 786
Foundations and NPOs	71 525	114 360	2 569	188 454
	<u>\$769 712</u>	<u>\$573 356</u>	<u>\$69 162</u>	<u>\$1 412 230</u>
				<u>\$2 462 147</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**4. EXPENSES****GENERAL FUND**

	2006	2005
Cost of wildlife projects		
Contributions:		
Habitat-related projects	\$1 719 902	\$1 860 348
Fishing-related projects and projects related to the next generation **	558 846	534 457
Projects related to wildlife partners	323 083	
Fondation projects *	101 287	18 000
Salaries and fringe benefits	502 051	486 094
Professional fees	19 842	14 879
Travelling expenses	13 990	13 705
Meetings, conferences and professional development	4 741	7 300
Advertising and promotional expenses	71 626	116 513
Printing and office expenses	12 287	10 809
Furniture and equipment	1 281	859
Depreciation of fixed assets	3 924	2 268
	<u>\$3 332 860</u>	<u>\$3 065 232</u>

Cost of job creation projects

Wage subsidies		\$1 800 534
Other costs		11 359
		<u>\$1 811 893</u>

* Includes \$64 211 (2005: \$-) for professional fees , employee wages and fringe benefits of \$5 532 (2005: \$-)

** An amount of \$36 602 for the purchase of fishing rods and the corresponding revenue was not presented in 2006 (2005: \$29 917).

	2006	2005
Fundraising expenses		
Salaries and fringe benefits	\$228 071	\$223 060
Professional fees	25 375	17 097
Commissions and royalties	3 338	28 527
Purchase of goods	12 128	53 013
Travelling expenses	16 200	15 022
Meetings, conference and professional development	3 891	17 274
Meals / benefits (events)	33 592	44 224
Advertising and promotional expenses	70 771	85 970
Printing and office expenses	20 817	26 732
Furniture and equipment	1 339	126
Depreciation of fixed assets	4 241	4 007
Other	8 783	17 486
	<u>\$428 546</u>	<u>\$532 538</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**4. EXPENSES (cont'd)****GENERAL FUND (cont'd)**

	2006	2005
Administrative expenses		
Salaries and fringe benefits	\$346 380	\$345 434
Professional fees	18 924	11 962
Travelling expenses	11 205	15 018
Meetings, conference and professional development	3 174	4 089
Advertising and promotional expenses	11 507	9 800
Rent	91 861	83 864
Printing and office expenses	29 242	23 757
Furniture and equipment	3 360	5 032
Depreciation of fixed assets	4 494	4 621
Other	23 660	10 518
	<u>\$543 807</u>	<u>\$514 095</u>

FIXED ASSETS FUND

	2006	2005
Cost of wildlife projects		
Contributions:		
Land acquisition and protection projects	\$638 396	\$1 290 589
Indirect costs:		
Salaries and fringe benefits	25 107	24 903
Professional fees	1 889	31 095
Advertising and promotional expenses	5 139	
Land management	19 521	26 645
Interests on long-term debt	22 246	3 243
Travelling expenses and other	2 241	3 164
	<u>\$714 539</u>	<u>\$1 379 639</u>

5. INTERFUND TRANSFERS

In 2006, \$25 000 (2005: \$50 000) was transferred from the General Fund to the Fixed Assets Fund. The transfer was designed to maintain the liquid assets surplus in the Fixed Assets Fund at the minimum defined by the board of directors by seeking a relatively stable level of interfund transfer from one year to another.

6. ACCOUNTS RECEIVABLE

Accounts receivable includes an amount of \$31 823 (2005: \$70 919) owed by Gouvernement du Québec departments and agencies.

FONDATION DE LA FAUNE DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**7. CONTRIBUTIONS RECEIVABLE**

	2006	2005
Ministère du Développement durable, de l'Environnement et des Parcs:		
– For the repayment of bank borrowings (Note 12)	\$455 626	\$501 889
– Other		70 070
	<u>\$455 626</u>	<u>\$571 959</u>

8. INVESTMENTS

Investments are presented at cost. These term deposits mature between June 12, 2006 and June 12, 2009 and bear interest at rates varying from 3.16% to 4.96% (average rate of 3.96%). Since the investments guarantee the bank credit line, they are renewed at maturity.

9. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
General Fund			
Equipment	\$128 524	\$79 491	\$49 033
Works of art	130 705		130 705
	<u>259 229</u>	<u>79 491</u>	<u>179 738</u>
Fixed Assets Fund			
Equipment	2 735	2 735	
Land	1 868 805		1 868 805
Management right	51 640		51 640
	<u>1 923 180</u>	<u>2 735</u>	<u>1 920 445</u>
	<u>\$2 182 409</u>	<u>\$82 226</u>	<u>\$2 100 183</u>

Depreciation for the year amounts to \$20 302 (2005: \$11 642).

10. DEPOSITS – WILDLIFE PROJECTS

The Fondation holds funds on behalf of certain agencies for special projects in which the Fondation is not involved. The balance of these funds comprising cash, term deposits, accounts receivable, accrued interest and related operations are not included in the Fondation's financial statements.

	2006	2005
Opening fund balance	\$834 529	\$1 107 277
Deposits and interest earned	1 560 760	246 879
Disbursements and administrative costs	(1 391 771)	(510 450)
Increase (decrease) in accrued interest	2 188	(9 177)
Closing fund balance	<u>\$1 005 706</u>	<u>\$834 529</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. EXCESS CONTRIBUTIONS**

Excess contributions represent amounts received from the Ville de Québec that were not used to acquire natural environments and which, under the agreement with the Ville de Québec, were repaid during the fiscal year.

12. BANK BORROWINGS

	<u>2006</u>	<u>2005</u>
Borrowing, bearing interest at a fixed rate of 4.96%, repayable in monthly instalments of \$6 856, maturing in March 2009	\$229 047	\$298 093
Borrowing, bearing interest at a fixed rate of 4.91%, repayable in monthly instalments of \$1 594, maturing in March 2009	53 259	69 342
Borrowing, bearing interest at a fixed rate of 4.82%, repayable in monthly instalments of \$1 340, maturing in March 2009	44 823	53 239
Borrowing, bearing interest at a fixed rate of 4.71%, repayable in monthly instalments of \$2 248, maturing in March 2009	75 391	81 215
Borrowing, bearing interest at a fixed rate of 5.175%, repayable in monthly instalments of \$1 593, maturing in March 2009	<u>53 106</u>	<u> </u>
	<u>\$455 626</u>	<u>\$501 889</u>

The capital payments on borrowings until maturity break down as follows:

2007	\$144 378
2008	151 650
2009	159 598

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.

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.

	<u>2006</u>	<u>2005</u>
Opening balance	\$145 305	\$74 075
Deposits and interest received	385 897	129 905
Amounts allocated during the year	<u>(39 800)</u>	<u>(58 675)</u>
Closing fund balance	<u>\$491 402</u>	<u>\$145 305</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. ALLOCATIONS FOR WILDLIFE PROJECTS**General Fund**

The Fondation has committed to paying a sum of \$2 396 052 as financial assistance for various wildlife projects, with payments breaking down as follows:

2007	\$1 702 825
2008	543 227
2009	100 000
2010 and thereafter	<u>50 000</u>
	<u><u>\$2 396 052</u></u>

At March 31, 2006, the financial assistance contracts signed represented \$2 072 998 of the total amount committed.

The Fondation allocated \$949 057 to meet its commitments.

Fixed Assets Fund

The Fondation is committed to paying \$6 139 for the acquisition of land for wildlife purposes in 2007.

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 as follows:

2007	\$95 497
2008	96 565
2009	98 700
2010	100 058
2011	102 776
2012 and thereafter	<u>493 596</u>
	<u><u>\$987 192</u></u>

16. RELATED PARTY TRANSACTIONS

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

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

17. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Fondation participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments on retirement and death.

The Fondation's contributions charged to the year-end statement amount to \$51 038 (2005: \$41 563). The Fondation's liability towards this Government plan is restricted to its contributions as an employer.

18. FINANCIAL INSTRUMENTS**Bank credit line**

At March 31, 2006, the Fondation had a bank credit line of \$500 000 that could be renewed on an annual basis. This credit line is guaranteed by investments. The amounts used bear interest at the prime rate minus 1%, i.e. 4.5% at the date of the balance sheet. At March 31, 2006, the balance was zero.

Fair value

The fair value of investments is estimated by actualizing future cash flows at current market interest rates for similar investment agreements.

The market value of investments was \$404 851 at March 31, 2006 (2005: \$409 320).

The fair value of the other financial instruments is equal to the 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 with regard to 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 they are exposed are minimal.

FONDATION DE LA FAUNE DU QUÉBEC**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors is responsible for ensuring that management performs its financial reporting duties and is ultimately responsible for auditing and approving the financial statements.

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

Bernard Beaudin
President and Chief Executive Officer

Québec, May 5, 2006

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, 2006 and the income and changes in fund balances and cash flow statements for the year then ended. These financial statements are the responsibility of Fondation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the Fondation's financial position as at March 31, 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, May 5, 2006

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES
(R.S.Q., c. S-4.01)

RESULTS AND SURPLUS STATEMENT
for the year ended December 31, 2005

	<u>2005</u>	<u>2004</u>
REVENUES		
Contributions from detention centres	\$27 933	\$44 417
Interest on loans	11 799	12 692
Interest on investments and bank deposits	32 029	39 729
Dividends on mutual fund units	9 706	2 779
Gain on disposition of fixed assets		350
	<u>81 467</u>	<u>99 967</u>
EXPENSES		
Salaries and fringe benefits	74 923	71 399
Gift and contribution to funds established in detention centres	70 772	57 313
Travel	21 006	20 325
Office expenses	8 901	11 653
Professional fees	4 025	4 031
Amortization of fixed assets	1 304	2 055
	<u>180 931</u>	<u>166 776</u>
INSUFFICIENCY OF REVENUES OVER EXPENSES	(99 464)	(66 809)
SURPLUS, BEGINNING OF YEAR	<u>1 871 889</u>	<u>1 938 698</u>
SURPLUS, END OF YEAR	<u><u>\$1 772 425</u></u>	<u><u>\$1 871 889</u></u>

The notes are an integral part of these financial statements.

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

BALANCE SHEET

as at December 31, 2005

	2005	2004
ASSETS		
Current assets		
Cash on hand	\$44 975	\$66 449
Term deposit, bearing interest at 2.3%	125 000	425 000
Accounts receivable (Note 3)	33 601	57 041
Prepaid expenses	27 877	20 239
Loans (Note 4)	30 934	28 288
	<u>262 387</u>	<u>597 017</u>
Loans (Note 4)	291 212	290 004
Investments (Note 5)	1 218 458	988 417
Fixed assets (Note 6)	<u>368</u>	<u>1 672</u>
	<u><u>\$1 772 425</u></u>	<u><u>\$1 877 110</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals		\$5 221
SURPLUS	<u>\$1 772 425</u>	<u>1 871 889</u>
	<u><u>\$1 772 425</u></u>	<u><u>\$1 877 110</u></u>
COMMITMENT (Note 8)		
SUBSEQUENT EVENT (Note 9)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Simard
 Jacques Hébert

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

CASH FLOW STATEMENT

for the year ended December 31, 2005

	2005	2004
OPERATING ACTIVITIES		
Insufficiency of revenues over expenses	\$(99 464)	\$(66 809)
Adjustments for:		
Interest on bonds	(9 272)	
Gain on disposal of fixed assets		(350)
Amortization of fixed assets	1 304	2 055
Dividends on mutual fund units	(9 706)	(2 779)
	(117 138)	(67 883)
Variation in non-cash elements linked to operations		
Encashment of loans	78 146	27 391
New loans	(82 000)	
Accounts receivable	23 440	11 493
Prepaid expenses	(7 638)	(20 239)
Accounts payable and accruals	(5 221)	198
	6 727	18 843
Cash flows used for operating activities	(110 411)	(49 040)
INVESTMENT ACTIVITIES		
Acquisition of short-term investments	100 000	
Disposal of short-term investments		75 000
Acquisition of fixed assets		(736)
Disposition of fixed assets		350
Acquisition of investments	(254 303)	(149 055)
Proceeds from sale of investments	243 240	119 774
Cash flows provided by investment activities	88 937	45 333
DECREASE IN CASH POSITION	(21 474)	(3 707)
CASH POSITION, BEGINNING OF YEAR	66 449	70 156
CASH POSITION, END OF YEAR	\$44 975	\$66 449

The notes are an integral part of these financial statements.

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Fonds central pour le bénéfice des personnes incarcérées was established under the Act respecting correctional services (R.S.Q., c S-4.01). Its functions are to lend support to funds established in detention centres and in financial difficulty, for which purpose it may make them gifts or grant them loans with or without interest; devise policies concerning programs of activities and advise the Government on what regulations to adopt; and approve the program of activities established by all funds established in detention centres.

The Fonds receives contributions from all funds established for the benefit of persons confined in detention centres. This contribution is determined by the Fonds within limits set by regulation by the government and may differ for each fund.

Under the applicable income tax legislation, the Fonds is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Short-term investments

Short-term investments are recorded using the lower value method (cost-net realization value).

Investments

Investments are recorded at acquisition value. Any permanent depreciation is reduced by the book value of investments and the loss is posted to the fiscal year's results.

Fixed assets

Fixed assets are recorded at cost and amortized based on their service life using the straight-line method.

	<u>Service life</u>
Computer equipment	3 years
Office equipment	5 years

3. ACCOUNTS RECEIVABLE

	<u>2005</u>	<u>2004</u>
Contributions receivable	\$30 000	\$40 000
Advances to detention centres		12 520
Accrued interest	3 601	4 521
	<u>\$33 601</u>	<u>\$57 041</u>

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**4. LOANS**

	<u>2005</u>	<u>2004</u>
Loans to funds established in detention centres		
Sherbrooke – bearing interest at 5.5%, cashable in monthly instalments of \$1 171 (principal and interest), maturing in 2015*	\$102 420	\$110 596
Sherbrooke – interest-free, cashable in monthly instalments of \$417, maturing in 2013*	36 250	41 250
Trois-Rivières – bearing interest at 5.5%, cashable in monthly instalments of \$1 217 (principal and interest), maturing in 2015*	104 209	112 821
New-Carlisle – interest-free, cashable in monthly instalments of \$683, maturing in 2015*	<u>79 267</u>	<u>53 625</u>
	322 146	318 292
Payments receivable in the coming fiscal year	<u>(30 934)</u>	<u>(28 288)</u>
	<u>\$291 212</u>	<u>\$290 004</u>

* The interest rate and terms and conditions of repayment will be re-evaluated annually on the loan's anniversary date.

5. INVESTMENTS

	<u>2005</u>	<u>2004</u>
Term deposit, bearing interest at 3.1%, maturing in September 2007	<u>\$200 000</u>	
Bonds		
Gouvernement du Québec, at rates varying from 2.9% to 4.16%, maturing up to August 2007	490 745	\$518 461
Government of Ontario, at rate of 3.21%, maturing in June 2007	149 055	221 755
Accrued interest	<u>45 419</u>	<u>36 147</u>
	<u>685 219</u>	<u>776 363</u>
Mutual fund units	<u>333 239</u>	<u>212 054</u>
	<u>\$1 218 458</u>	<u>\$988 417</u>

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

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

6. FIXED ASSETS

	2005		2004
	Cost	Accumulated depreciation	Net
Office equipment	\$3 300	\$3 300	\$330
Computer equipment	7 284	6 916	1 342
	<u>\$10 584</u>	<u>\$10 216</u>	<u>\$1 672</u>

7. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value due to their pending maturity date. The following table indicates the book value and the fair value of the Fonds' long-term financial instruments.

	2005		2004	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments	\$1 218 458	\$1 264 564	\$988 417	\$1 013 365
Loans ¹	\$322 146		\$318 292	

¹ The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of loan.

8. COMMITMENT

Under a resolution passed by the board of directors, the Fonds is committed to granting an additional loan of \$100 000 to the Sherbrooke fund.

9. SUBSEQUENT EVENT

Under Bill 120 assented to on December 16, 2005, the Act to abolish certain public bodies and transfer administrative responsibilities, the Fonds central pour le bénéfice des personnes incarcérées was abolished. As of January 1, 2006, it was replaced by a trust fund reporting to the Minister of Public Security, i.e. Fonds central de soutien à la réinsertion sociale.

FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES**MANAGEMENT'S REPORT**

The financial statements of the Fonds central pour le bénéfice des personnes incarcérées have been drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 use in preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

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

Gaston Gamache
Director

Sainte-Foy, March 2, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds central pour le bénéfice des personnes incarcérées as at December 31, 2005, the results and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 2, 2006

FONDS D'AIDE AUX RECOURS COLLECTIFS
(R.S.Q., c. R-2.1)

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	2006	2005
REVENUES		
Gouvernement du Québec subsidy	\$713 600	\$724 800
Subrogations	231 227	1 437 165
Balances on class actions and settled claims	1 016 777	49 922
Interest	98 934	77 392
	<u>2 060 538</u>	<u>2 289 279</u>
EXPENSES		
Assistance to recipients (Note 3)	1 718 313	1 359 922
Expenses of the board of directors:		
Fees and fringe benefits	40 700	40 517
Communications and travelling expenses	4 959	4 799
	45 659	45 316
Administrative expenses:		
Salaries and fringe benefits	226 449	209 222
Rent	30 861	31 870
Professional and administrative services	38 500	24 646
Transportation and communications	8 767	11 676
Materials and supplies	3 432	2 135
Maintenance and repairs	676	421
Amortization of fixed assets	5 326	7 642
Other expenses	16 527	893
	330 538	288 505
	<u>2 094 510</u>	<u>1 693 743</u>
(DEFICIT) SURPLUS IN THE FISCAL YEAR	(33 972)	595 536
SURPLUS, BEGINNING OF YEAR	2 976 154	2 380 618
SURPLUS, END OF YEAR	<u>\$2 942 182</u>	<u>\$2 976 154</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, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$82 097	\$122 842
Short-term investments - at cost	1 600 000	1 718 907
Accrued interest	69 854	56 084
Prepaid expenses	<u>2 795</u>	<u>798</u>
	1 754 746	1 898 631
Investments - at cost (Note 5)	1 288 000	1 288 000
Fixed assets (Note 6)		<u>5 326</u>
	<u>\$3 042 746</u>	<u>\$3 191 957</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$58 817	\$187 527
Provision for vacation time	<u>18 175</u>	<u>17 766</u>
	76 992	205 293
Provision for sick leave (Note 9)	<u>23 572</u>	<u>10 510</u>
	<u>100 564</u>	<u>215 803</u>
SURPLUS (Note 7)		
Maintenance of liquid assets	300 000	300 000
Coverage of commitments	<u>2 642 182</u>	<u>2 676 154</u>
	<u>2 942 182</u>	<u>2 976 154</u>
	<u>\$3 042 746</u>	<u>\$3 191 957</u>
COMMITMENTS (Note 8)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
M^c Jean Bernier, chairman
M^c Anne Turgeon, director

FONDS D'AIDE AUX RECOURS COLLECTIFSNOTES TO FINANCIAL STATEMENTS
March 31, 2006

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Revenue reporting

Revenue from subrogations, balances of claims and settled claims are reported when it is 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 lowest value (cost – net realization value).

The other long-term investments are recorded at acquisition value.

Any lasting loss in value is diminished by the book value of investments and the loss is posted to results for the fiscal year.

Fixed assets

Fixed assets are presented at acquisition cost and are amortized using the straight-line method over their estimated service life, which is 3 years.

Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise 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 2006 was 608 069 \$ (2005: \$110 237) for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. SEGMENTAL REPORTING

Activity sectors	2006			2005		
	Operations	Assistance to recipients	Total	Operations	Assistance to recipients	Total
Revenue						
Gouvernement du Québec subsidy	\$415 400	\$298 200	\$713 600	\$426 600	\$298 200	\$724 800
Subrogations		231 227	231 227		1 437 165	1 437 165
Balances on class actions and settled claims ¹		1 016 777	1 016 777		49 922	49 922
Interest		98 934	98 934		77 392	77 392
	<u>415 400</u>	<u>1 645 138</u>	<u>2 060 538</u>	<u>426 600</u>	<u>1 862 679</u>	<u>2 289 279</u>
Expenditure						
Assistance to recipients	-----	1 718 313	1 718 313	-----	1 359 922	1 359 922
Expenses of the board of directors:						
Fees and fringe benefits	40 700		40 700	40 517		40 517
Communications and travelling expenses	<u>4 959</u>		<u>4 959</u>	<u>4 799</u>		<u>4 799</u>
	45 659	-----	45 659	45 316	-----	45 316
Administrative expenses:						
Salaries and fringe benefits	226 449		226 449	209 222		209 222
Rents	30 861		30 861	31 870		31 870
Professional and administrative expenses	38 500		38 500	24 646		24 646
Transportation and communications	8 767		8 767	11 676		11 676
Materials and supplies	3 432		3 432	2 135		2 135
Maintenance and repairs	676		676	421		421
Depreciation of fixed assets	5 326		5 326	7 642		7 642
Other expenses	<u>16 527</u>		<u>16 527</u>	<u>893</u>		<u>893</u>
	330 538	-----	330 538	288 505	-----	288 505
	<u>376 197</u>	<u>1 718 313</u>	<u>2 094 510</u>	<u>333 821</u>	<u>1 359 922</u>	<u>1 693 743</u>
(Deficit) Surplus in the fiscal year	<u>\$39 203</u>	<u>\$(73 175)</u>	<u>\$(33 972)</u>	<u>\$92 779</u>	<u>\$502 757</u>	<u>\$595 536</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 COLLECTIFSNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. INVESTMENTS**

	2006		2005	
	Cost	Fair value	Cost	Fair value
Québec tiered-rate bonds maturing September 26, 2012 at an interest rate of 4.85% until September 25, 2006 and 6.0% until September 25, 2007	\$873 000	\$894 692	\$873 000	\$890 891
Financement Québec guaranteed-rate bonds Maturing June 1, 2006 at an interest rate of 3.19%. This investment is renewed and split into two investments, one maturing in June 2007 and the other in October 2008	415 000	438 747	415 000	427 050
	<u>\$1 288 000</u>	<u>\$1 333 439</u>	<u>\$1 288 000</u>	<u>\$1 317 941</u>

The fair value of investments is estimated by discounting future cash flows at the current market interest rate for similar investment agreements.

6. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net value
Computer equipment	<u>\$23 157</u>	<u>\$23 157</u>	<u>\$5 326</u>

7. 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 surplus for the Fonds' present and future commitments.

8. COMMITMENTS

At March 31, 2006, Fonds' commitments related to assistance to recipients amounted to \$2 431 269 (2005: \$2 429 205), including \$0 (2005: \$79 763) 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, 2006 was \$3 300 000 (2005: \$3 300 000), \$300 000 of which (2005: \$300 000) is reserved for two tobacco files (Létourneau et Conseil québécois sur le tabac et la santé).

9. FUTURE FRINGE BENEFITS**Pension plan**

Fonds staff members participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan that includes guaranteed payments upon retirement and death.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. FUTURE FRINGE BENEFITS (cont'd)**Pension plan (cont'd)**

The Fonds contributions charged to the year-end statement were \$11 936 (2005: \$6 636). The Fonds' liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Opening balance	\$10 510	\$14 083
Expense for the year	22 254	6 590
Benefits paid during the year	(9 192)	(10 163)
Closing balance	<u>\$23 572</u>	<u>\$10 510</u>

10. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given their pending maturity date.

11. RELATED PARTY TRANSACTIONS

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

12. COMPARATIVE FIGURES

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

FONDS D'AIDE AUX RECOURS COLLECTIFS**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'aide aux recours collectifs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

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

Jean Bernier
President

Louise Ducharme
Legal Counsel and Secretary

Montréal, July 7, 2006

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, 2006 and the income, expense and surplus statement for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 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, July 7, 2006

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**
(R.S.Q., c. M-35.1)

REVENUES AND FUND BALANCE
for the fiscal year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Premiums	\$94 444	\$96 324
Net investment income (Note 3)	<u>328 719</u>	<u>288 282</u>
	423 163	384 606
EXPENSES		
Guarantee claims	<u>(2 106)</u>	<u>(144 272)</u>
SURPLUS REVENUES OVER EXPENSES	425 269	528 878
OPENING FUND BALANCE	<u>4 380 819</u>	<u>3 851 941</u>
CLOSING FUND BALANCE	<u><u>\$4 806 088</u></u>	<u><u>\$4 380 819</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, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	\$98 890	\$13 441
Deposits with the Special Fund 329 of the Caisse de dépôt et placement du Québec:		
Demand deposits and accrued interest	49 004	53 792
Participation deposits (Note 4)	<u>4 749 919</u>	<u>4 316 412</u>
	<u>\$4 897 813</u>	<u>\$4 383 645</u>
LIABILITIES		
Accounts payable	\$6 554	\$735
Guarantee claim payable		2 091
Prepaid premiums	<u>85 171</u>	
	91 725	2 826
FUND BALANCE	<u>4 806 088</u>	<u>4 380 819</u>
	<u>\$4 897 813</u>	<u>\$4 383 645</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 FINANCIAL STATEMENTS
March 31, 2006

1. CONSTITUTION AND PURPOSE

The Régie des marchés agricoles et alimentaires du Québec was established by a special Act (R.S.Q., c. M-35.1).

The Régie's functions are to foster the efficient and orderly marketing of agricultural and food products, the development of harmonious relations between the various parties involved and the settlement of disputes arising in connection with the production and marketing of such products, taking into account the interests of consumers and the protection of the public interest. The Régie has the same functions in respect of the marketing of fish products. It also manages the Fonds d'assurance-garantie.

Fonds d'assurance-garantie

The Fonds d'assurance-garantie results from the Régie's application of 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 Fund's financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that Régie's management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Reimbursement of claims

Claims from producers or from the agency responsible for applying a joint plan are recorded when known. The amount of these claims is adjusted as additional information is known.

Deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec

Deposits are recorded at cost.

Proceeds reporting

Premiums are reported as proceeds for the fiscal year in which they are payable when received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Administrative expenses

The Fund's administrative expenses are borne by the Consolidated Revenue Fund.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. NET INVESTMENT INCOME

	2006	2005
Fonds particulier 329 of the Caisse de dépôt et placement du Québec:		
Participation deposits	\$327 962	\$252 179
Demand deposits	757	1 314
Gain (Loss) on sale of participation units		34 789
	<u>\$328 719</u>	<u>\$288 282</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.

	2006	2005
Number of units	5 334	4 895
Fair value per unit	\$994	\$967
Cost of units	\$4 749 919	\$4 316 412
Fair value of units	\$5 302 997	\$4 732 110

5. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

Other assets and liabilities

The fair value of cash, demand deposits, interest earned, accounts payable and claims involving a guarantee being paid equal their book value, given that they mature in the near future.

6. GUARANTEE POLICIES

Guarantee policies issued by the Régie insure the value representing the higher of two monthly milk and cream receptions from producers the previous fiscal year. Guarantees in effect at March 31, 2006 totalled \$396 M (March 31, 2005: \$389 M).

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, 2006 totalled \$0.4 M (March 31, 2005: \$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, 2006 and the revenues and fund balance statement for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds d'assurance-garantie as at March 31, 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, July 6, 2006

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS
(R.S.Q., c. A-29.1)

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Insurance charges (Note 3)	9 781	10 433
Investment income	10 170	5 780
Variation in the unrealized appreciation on investments	<u>8 816</u>	<u>6 218</u>
	<u>28 767</u>	<u>22 431</u>
EXPENSES		
Professional fees	1	16
Change in allowance for loan guarantees (Note 5)	<u>3 083</u>	<u>3 956</u>
	<u>3 084</u>	<u>3 972</u>
EXCESS REVENUE OVER EXPENDITURE	25 683	18 459
SURPLUS, BEGINNING OF YEAR	<u>52 248</u>	<u>33 789</u>
SURPLUS, END OF YEAR	<u>77 931</u>	<u>52 248</u>

The notes are an integral part of these financial statements.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

BALANCE SHEET
as at March 31, 2006
(in thousand of dollars)

	2006	2005
ASSETS		
Current assets		
Cash on hand	77	
Short-term investments (Note 4)	6 184	1 487
Investment income receivable	845	772
	<u>7 106</u>	<u>2 259</u>
Investments (Note 6)	<u>139 233</u>	<u>121 245</u>
	<u>146 339</u>	<u>123 504</u>
 LIABILITIES		
Gouvernement du Québec advance – interest-free and without repayment terms	10 000	10 000
Allowance for loan guarantees (Note 5)	<u>58 408</u>	<u>61 256</u>
	68 408	71 256
 SURPLUS	<u>77 931</u>	<u>52 248</u>
	<u>146 339</u>	<u>123 504</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Brind'Amour, President and Chief Executive Officer
Laurent Pellerin, Chairman of the Board

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

CASH FLOW STATEMENT
for the year ended March 31, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess revenue over expenditure	25 683	18 459
Elements not affecting cash flows:		
Change in allowance for loan guarantees	3 083	3 956
Gain on disposal of investments		(291)
Variation in unrealized appreciation of long-term investments	<u>(8 787)</u>	<u>(6 218)</u>
	19 979	15 906
Change in non-cash elements linked to operations:		
Investment income receivable	(73)	(351)
Repayment of loans to lenders	(6 275)	(9 219)
Recovery of losses	<u>344</u>	<u>16</u>
	(6 004)	(9 554)
Cash flows related to operating activities	<u>13 975</u>	<u>6 352</u>
INVESTMENT ACTIVITIES		
Acquisitions of investments	(9 201)	(10 000)
Proceeds from disposal of investments	<u></u>	<u>4 201</u>
Cash flows related to investment activities	<u>(9 201)</u>	<u>(5 799)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4 774	553
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 487</u>	<u>934</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>6 261</u>	<u>1 487</u>
 Cash and cash equivalents at year-end include:		
Cash	77	
Short-term investments	<u>6 184</u>	<u>1 487</u>
	<u>6 261</u>	<u>1 487</u>

The notes are an integral part of these financial statements.

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 recorded at the fair value established by the Caisse using evaluation methods utilized in capital markets. They include participation deposits in a specific Caisse fund, which were designed irrevocably for purposes of transactions and the related revenues receivable.

Allowance for loan guarantees

As a guarantor, the Fonds is exposed to the economic uncertainties and risks inherent in agriculture and forestry. Should the economic conditions used to estimate the required allowance change, the real losses on guaranteed loans might differ from the estimates made.

The general provision is established using the method of discounting losses considering a failure rate per term and average losses using the maximum term for the type of loan guaranteed at fiscal year-end and an annual discount rate of 6%. This provision includes an implicit margin for unfavourable variances in keeping with the recommendations of the Canadian Institute of Actuaries.

The specific allowance is established based on a case-by-case analysis of the loans insured as at March 31 for which the amount in arrears has been owing for more than 180 days or when circumstances make the possibility of one day collecting the capital and interest doubtful. The specific allowance represents the balance of the loan guarantee adjusted by the guarantees' realizable value.

Cash and cash equivalents

The Fonds' policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible into a known amount of cash whose value is unlikely to change significantly.

3. INSURANCE CHARGES

Insurance charges were paid in full by La Financière agricole du Québec and correspond to 1.43% of the authorized amount of loans for which the first instalment was paid to the lender during the previous fiscal year and 1.25% of the balance of credit adjudication granted by the lender as at March 31 of the previous year.

4. SHORT-TERM INVESTMENTS

	2006	2005
Commercial papers, 3.82% to 3.90%, maturing until May 15, 2006	5 384	
Bank acceptance, 3.82%, maturing on April 25, 2006	499	
Caisse de dépôt et placement du Québec:		
Demand deposits, 3.75%	301	1 487
	<u>6 184</u>	<u>1 487</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousand of dollars)

5. ALLOWANCE FOR LOAN GUARANTEES

	2006	2005
Opening balance	61 256	66 503
Reimbursement of losses to lenders	(6 275)	(9 219)
Recovery of losses	344	16
Change in allowance for loan guarantees	3 083	3 956
Closing balance	<u>58 408</u>	<u>61 256</u>
Closing balance breaks down as follows:		
Specific allowance	11 510	12 438
General allowance	<u>46 898</u>	<u>48 818</u>
	<u>58 408</u>	<u>61 256</u>

The allowance for loan guarantees is established in relation to the overall portfolio of loans insured as at March 31, 2006, totalling \$4 171.7 million (2005: \$4 260.3 million). As at March 31, 2006, insured loans covered by a specific allowance amount to \$30 million (2005: \$29 million).

Insured loan guarantee

The duration of the guarantee corresponds to the remaining duration of the loans insured which breaks down as follows:

	2006	2005
Farm financing:		
less than 5 years	437 895	423 905
between 5 and 10 years	1 195 826	1 238 478
between 10 and 15 years	1 417 543	1 453 440
between 15 and 20 years	1 011 549	1 035 020
20 years and more	26 549	36 170
	<u>4 089 362</u>	<u>4 187 013</u>
Forestry financing:		
less than 5 years	10 957	11 011
between 5 and 10 years	17 120	18 177
between 10 and 15 years	22 478	20 648
between 15 and 20 years	31 202	23 036
20 years and more	571	422
	<u>82 328</u>	<u>73 294</u>
	<u>4 171 690</u>	<u>4 260 307</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousand of dollars)

5. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

The balances in principle and interest of insured loans, for which the Fonds reimburses the losses and pays the related fees, bear interest at the following rates:

	2006	2005
Farm financing:		
less than 4%	93 962	308 682
from 4% to 5.99%	2 887 250	2 634 818
6% and more	599 410	658 235
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	508 740	585 278
	<u>4 089 362</u>	<u>4 187 013</u>
Forestry financing:		
less than 5%	22 732	31 485
from 5% to 6.99%	49 910	29 489
7% and more	2 693	4 969
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	6 993	7 351
	<u>82 328</u>	<u>73 294</u>
	<u>4 171 690</u>	<u>4 260 307</u>

The Fonds has certain recourses allowing it to recover, from third parties, amounts paid to lenders once the guarantee is enforced.

The nature of the assets held as surety by the lenders comprises primarily farm or forestry harvesting units, dairy quotas and sureties. The Fonds covers the lender's residual loss.

The fair value of the loan guarantee equals the overall provision, given that the latter is subject to actuarial analysis every four years and annual review.

6. INVESTMENTS

Participation deposits are invested in a specific fund into the Caisse de dépôt et placement du Québec and are expressed in units. These units are repayable with advance notice according to the terms of the Caisse's regulations, at the market value of the net equity of the specific fund at the end of each month. Demand deposits, presented separately from short-term assets, are also invested in a specific fund.

	2006	2005
Participation deposits at fair value	<u>139 233</u>	<u>121 245</u>

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousand of dollars)

7. RELATED PARTY TRANSACTIONS

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

8. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments is equivalent to the fair book value, given that they mature in the near future. The fair value of the loan guarantee provision is equivalent to the book value, given that the provision is subject to actuarial analysis every four years and annual review. The fair value of the Gouvernement du Québec advance cannot reasonably be estimated, given the lack of a market.

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:

	2006	2005
Dairy production	54%	54%
Hog production	11%	12%
Grain production	8%	9%
Horticultural production	7%	7%
Beef production	6%	6%
Maple product production	4%	4%
Other	10%	8%

FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'assurance-prêts agricoles et forestiers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. At least every four years, the Fonds must perform an actuarial analysis of its operations and collate all information useful for setting insurance fee rates.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its responsibilities by the budgetary monitoring and auditing committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

For the Fonds d'assurance-prêts agricoles et forestiers,

Jacques Brind'Amour
President and Chief Executive Officer

Jean-Marc Lacasse
Vice-President, Corporate Affairs

Lévis, May 25, 2006

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, 2006 and the income and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the Fonds' financial position as at March 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with the accounting policies principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 25, 2006

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC
(R.S.Q., c. D-9.1)

INCOME AND EXPENSES
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Subsidies (Note 3)	\$84 298 180	\$84 333 715
Interest and other revenue (Note 4)	<u>1 417 449</u>	<u>1 609 510</u>
	85 715 629	85 943 225
EXPENSES		
Scholarships and grants awarded (Note 5)	79 840 030	82 887 923
Operating expenses (Note 6)	<u>5 212 231</u>	<u>4 635 919</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$663 368</u></u>	<u><u>\$(1 580 617)</u></u>

The notes are an integral part of these financial statements.

SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
SURPLUS, BEGINNING OF YEAR	\$1 861 856	\$3 442 473
Excess (Deficiency) of revenue over expenditure	<u>663 368</u>	<u>(1 580 617)</u>
SURPLUS, END OF YEAR	<u><u>\$2 525 224</u></u>	<u><u>\$1 861 856</u></u>

The notes are an integral part of these financial statements.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBECBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand (Note 12)	\$1 990 542	
Term deposits (1.8% to 3.4%) (Note 12)	12 315 133	\$14 566 472
Accrued interest	138 341	147 127
Accounts receivable (Note 8)	724 717	603 355
Prepaid expenses	57 664	106 362
	<u>15 226 397</u>	<u>15 423 316</u>
Fixed assets (Note 9)	<u>643 958</u>	<u>952 918</u>
	<u><u>\$15 870 355</u></u>	<u><u>\$16 376 234</u></u>
LIABILITIES		
Current liabilities		
Bank overdraft		\$2 763 153
Scholarships and grants payable	\$5 642 722	4 533 758
Accounts payable and accruals (Note 10)	834 084	565 157
Deferred contributions (Note 11)	5 139 523	4 570 106
	<u>11 616 329</u>	<u>12 432 174</u>
Deferred contributions related to fixed assets	382 706	771 457
Special Research Fund (Note 12)	1 346 096	1 310 747
APPROPRIATED SURPLUS (Note 7)	<u>2 525 224</u>	<u>1 861 856</u>
	<u><u>\$15 870 355</u></u>	<u><u>\$16 376 234</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.
Cheri L. Deal, M.D., Ph. D.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Proceeds reporting

Unappropriated subsidies are reported as proceeds when they are received or receivable if the amount receivable 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 recorded as proceeds during the fiscal year in which the expenses for which they are allocated are incurred.

Scholarships and grants awarded

Scholarships and grants are entered when they are approved and the recipients have met the eligibility criteria. Scholarships and grants that are cancelled or recovered are recorded in the year in which they were cancelled or recovered.

Fixed assets

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis applicable for the estimated duration of their service life, i.e. 5 years for furniture and equipment, 3 years for computer equipment and software and for the remainder of the lease for leasehold improvements.

The Fonds regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

Deferred contribution related to fixed assets

Contributions received for the Gouvernement du Québec for the acquisition of depreciable fixed assets are deferred and entered in the statement of income on the same terms as the depreciation of the related fixed assets.

Pension plans

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

Cash flow statement

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. SUBSIDIES - SCHOLARSHIPS AND GRANTS

	2006	2005
Government		
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$69 831 882	\$70 783 838
Régie de l'assurance maladie du Québec	8 400 000	8 400 000
Ministère des Affaires internationales du Québec		3 691
Ministère de la Santé et des Services sociaux du Québec	3 601 002	2 804 292
Société de l'assurance automobile du Québec	50 000	192 000
Institut de recherche Robert-Sauvé en santé et en sécurité du travail	41 250	
Fonds québécois de la recherche sur la nature et les technologies	13 750	
Fonds québécois de la recherche sur la société et la culture	566 250	652 500
Hôpital Louis H. Lafontaine		14 402
Newton Foundation	250 000	250 000
Amortization of deferred contributions related to fixed assets	387 551	531 858
	<u>83 141 685</u>	<u>83 632 581</u>
Other	<u>1 156 495</u>	<u>701 134</u>
	<u>\$84 298 180</u>	<u>\$84 333 715</u>

4. INTERESTS AND OTHER REVENUES

	2006	2005
Interest on bank and short-term deposits	\$784 642	\$628 533
Cancellations and recovery of scholarships and grants	165 461	515 154
Other	467 346	465 823
	<u>\$1 417 449</u>	<u>\$1 609 510</u>

5. SCHOLARSHIPS AND GRANTS AWARDED

	2006	2005
Training grants	\$11 433 442	\$10 395 574
Career scholarships	15 725 309	17 552 694
Project subsidies	10 218 577	8 673 007
Research fellowships and national health scientists	99 838	108 517
Subsidies for groups, centres, teams and research themes	42 362 864	46 158 131
	<u>\$79 840 030</u>	<u>\$82 887 923</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. OPERATING EXPENSES

	2006	2005
Salaries and fringe benefits	\$2 565 116	\$2 083 614
Professional fees	600 673	361 483
Travelling and accommodation expenses	203 435	231 096
Office space	657 415	572 792
Office expenses	352 229	417 333
Maintenance and repairs	366 945	412 710
Depreciation of furniture and equipment	47 914	44 656
Amortization of leasehold improvements	23 937	23 721
Depreciation of data processing equipment and software	394 567	488 514
	<u>\$5 212 231</u>	<u>\$4 635 919</u>

7. APPROPRIATED SURPLUS

The Fonds board of directors appropriated net assets of \$2 525 224 at March 31, 2006 (\$1 861 856 at March 31, 2005) related to the scholarships and grants that will be awarded over the coming fiscal year and the operating costs. The Fonds cannot use these amounts tied to appropriations of outside origins for other purposes without the board of director's prior consent. These appropriations break down as follows:

	2006	2005
Training scholarships	\$136 822	\$730 978
Career scholarships	937 264	
Scholarships and grants	1 021 138	260 878
Operating costs	200 000	200 000
Start-up subsidies for young researchers	230 000	670 000
	<u>\$2 525 224</u>	<u>\$1 861 856</u>

8. ACCOUNTS RECEIVABLE

	2006	2005
Health Canada	\$100 000	
Fonds québécois de la recherche sur la nature et les technologies	17 974	\$62 225
Fonds québécois de la recherche sur la société et la culture	100 099	106 021
Ministère de la Santé et des Services sociaux du Québec	344 628	175 000
Other	162 016	260 109
	<u>\$724 717</u>	<u>\$603 355</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$252 679	\$147 524	\$105 155
Leasehold improvements	220 184	104 878	115 306
Data processing equipment and software	1 284 936	861 439	423 497
	<u>\$1 757 799</u>	<u>\$1 113 841</u>	<u>\$643 958</u>
			<u>\$952 918</u>

Disbursements related to the acquisition of fixed assets totalled \$158 569 (2005: \$206 494). Proceeds from the sale of fixed assets totalled \$1 500 (2005: \$5 700).

10. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Fonds québécois de la recherche sur la société et la culture	\$72	\$21 376
Fonds québécois de la recherche sur la nature et les technologies	4 451	1 216
Other	829 561	542 565
	<u>\$834 084</u>	<u>\$565 157</u>

11. DEFERRED CONTRIBUTIONS

	2006	2005
Protected programs	\$2 509 949	\$2 345 945
Support for health research in rural and semi-rural populations	270 000	360 000
National emergency program	834 784	960 280
Other	1 524 790	903 881
	<u>\$5 139 523</u>	<u>\$4 570 106</u>

The fiscal year's contributions total \$4 143 676 (2005: \$4 665 356). The amounts reported as the fiscal year's proceeds total \$3 574 259 (2005: \$4 531 997).

The amounts cashed over the fiscal year related to deferred contributions total \$4 009 091 (2005: \$4 014 090).

12. SPECIAL RESEARCH FUND

This item represents amounts received from private firms for the establishment of a special research fund. Le 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 capital.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. SPECIAL RESEARCH FUND** (cont'd)

The amounts are distributed as follows:

	2006	2005
Pharmacology		
Capital	\$455 245	\$453 290
Accumulated interest	260 103	243 291
	<u>715 348</u>	<u>696 581</u>
Hypertension		
Capital	547 141	545 414
Accumulated interest	83 607	68 752
	<u>630 748</u>	<u>614 166</u>
	<u><u>\$1 346 096</u></u>	<u><u>\$1 310 747</u></u>

**Changes in Fund balance
for the year ended March 31, 2006**

	2006	2005
Opening balance	\$1 310 747	\$1 306 229
Increase		
Interest on term deposits	36 822	33 967
Decrease		
Grants awarded		(28 090)
Administrative expenses – Fonds de la recherche en santé du Québec	(1 473)	(1 359)
Closing balance	<u><u>\$1 346 096</u></u>	<u><u>\$1 310 747</u></u>

**Balance sheet
as at March 31, 2006**

	2006	2005
Assets		
Current assets		
Cash on hand	\$620	\$7 570
Term deposits (3.2%) and accrued interest	1 346 949	1 311 558
	<u><u>\$1 347 569</u></u>	<u><u>\$1 319 128</u></u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. SPECIAL RESEARCH FUND (cont'd)

Balance sheet (cont'd)
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
Liabilities		
Current liabilities		
Researcher-scholarship recipient payable		\$7 022
Administrative expenses payable	\$1 473	1 359
Fund balance	<u>1 346 096</u>	<u>1 310 747</u>
	<u>\$1 347 569</u>	<u>\$1 319 128</u>

13. RELATED PARTY TRANSACTIONS

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

14. COMMITMENTS

The Fonds is committed under long-term leases whose maturity dates vary until June 30, 2011 for administrative offices. These leases include a 10-year renewal option.

Lease payments for the year ended March 31, 2006 amount to \$571 297. The minimum lease payments for the five fiscal years are as follows:

2007	\$533 859
2008	564 240
2009	572 526
2010	603 418
2011	<u>763 660</u>
	<u>\$3 037 703</u>

15. FUTURE FRINGE BENEFITS

Pension plan

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

The Fonds' contributions charged to the year-end statement amount to \$69 371 (2005: \$51 066). The liability of the Fonds towards these Government plans is restricted to its contributions as an employer.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

16. FINANCIAL INSTRUMENTS

Bank borrowing

The Fonds had a guaranteed bank credit line of \$5 000 000, which is guaranteed by current and future receivables resulting from subsidies receivable from the Ministère du Développement économique, de l'Innovation et de l'Exportation. Any amounts used bear interest at the prime rate plus 0.5% annually, i.e. 6% at the date of the balance sheet (2005: 4.75%). At March 31, 2005 and 2006, the balance of this bank borrowing was zero.

Fair value

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

17. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform to the financial statement presentation adopted in the current year.

MANAGEMENT'S REPORT

The financial statements of the Fonds de la recherche en santé du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing the appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Alain Beaudet
President and Chief Executive Officer

Claude Brouillette
Assistant to the Chief Executive Officer

Montréal, June 16, 2006

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, 2006 and the income and surplus statement for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 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, May 17, 2006

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

RESULTS AND SURPLUS
for the fiscal year ended March 31, 2006

	April 1, 2005 to March 31, 2006	November 11, 2004 to March 31, 2005
REVENUES		
Contributions from customers of travel agents	\$8 032 345	\$2 829 046
Contributions from wholesalers	2 378 539	847 916
Investment income	407 990	72 904
Cancelled contributions (Note 3)	68 222	5 000
	<u>10 887 096</u>	<u>3 754 866</u>
EXPENSES		
Net claims and trust charges	131 733	918 353
Administrative expenses – Government of Québec	136 304	45 860
Interest on long-term debt	249 320	98 507
	<u>517 357</u>	<u>1 062 720</u>
EXCESS REVENUES OVER EXPENSES	10 369 739	2 692 146
DEFICIT, BEGINNING OF YEAR	<u>(3 472 868)</u>	<u>(6 165 014)</u>
SURPLUS (DEFICIT), END OF YEAR	<u>\$6 896 871</u>	<u>\$(3 472 868)</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, 2006

	March 31, 2006	Marc 31, 2005
ASSETS		
Current assets		
Cash on hand	\$1 350 859	\$1 873 820
Term deposit (rate: 1.40% in 2005)		1 700 000
Demand deposits in the General Fund of the Caisse de dépôt et placement du Québec – at cost	1 307 224	208 238
Investment income receivable	53 139	24 182
Accounts receivable (Note 4)	2 860 830	2 365 180
Additional contributions receivable		2 500
	<u>5 572 052</u>	<u>6 173 920</u>
Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec (Note 5)	10 905 459	2 684 771
Basic contributions refunded in advance	<u>221 500</u>	<u>224 750</u>
	<u>\$16 699 011</u>	<u>\$9 083 441</u>
LIABILITIES		
Current liabilities		
Claims and expenses payable	\$413 469	\$1 102 023
Interest accrued on the long-term debt	62 137	608 630
Basic contributions to be reimbursed		12 250
	<u>475 606</u>	<u>1 722 903</u>
Long-term debt (Note 6)	4 800 000	6 000 000
Basic contributions (Note 7)	<u>4 526 534</u>	<u>4 833 406</u>
	9 802 140	12 556 309
SURPLUS (DEFICIT)	<u>6 896 871</u>	<u>(3 472 868)</u>
	<u>\$16 699 011</u>	<u>\$9 083 441</u>

SUBSEQUENT EVENT (Note 10)

The notes are an integral part of these financial statements.

Yvan Turcotte
President of the Office de la
protection du consommateur

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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 Fonds d'indemnisation des clients des agents de voyages' financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

Revenue reporting

The revenues from contributions by customers of travel agents and wholesalers are reported as revenues when they are received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Net claims and trust fees

Individual loss estimates are supplied 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. Further, a portion of the salaries paid by the government are 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 recorded at acquisition cost.

3. CANCELLED CONTRIBUTIONS

Cancelled contributions represent, for travel agents having ceased their operations, basic contributions that were never claimed by the agents within the prescribed time frame and those for which consumer claims exceeded this contribution.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. ACCOUNTS RECEIVABLE

	March 31, 2006	March 31, 2005
Provisional administrators	\$351 513	\$177 000
Travel agencies	2 509 317	2 188 180
	<u>\$2 860 830</u>	<u>\$2 365 180</u>

The amounts receivable from travel agencies cover the period ending March 31, 2006. However, they are required to pay their remittances every three months.

5. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec are 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 net equity of the fund at the end of each month.

	March 31, 2006	March 31, 2005
Number of units	11 489	3 094
Cost of units	\$10 905 459	\$2 684 771
Fair value of units	\$11 326 365	\$2 938 931
Fair value per units	\$986	\$950

6. LONG-TERM DEBT

	March 31, 2006	March 31, 2003
Gouvernement du Québec advance, bearing interest at the National Bank of Canada prime rate, without repayment term, expiring in March 2009	<u>\$4 800 000</u>	<u>\$6 000 000</u>

7. BASIC CONTRIBUTIONS – COLLECTIVE SECURITY

	March 31, 2006	March 31, 2005
Retailers	\$2 894 034	\$3 053 406
Wholesalers	1 632 500	1 780 000
Total	<u>4 526 534</u> \$	<u>4 833 406</u>

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The fair value of the long-term debt as at March 31, 2006 is of \$4 260 000. This fair value is established based on the following assumptions: capitalization rate of 5.5%, future payments of \$1.2 million in 2007 and 2008 and \$2.4 million in 2009.

9. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed in its financial statements and recorded at exchange value, the Fund is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to either joint control or significant influence by it. The Fund did not carry out any business transactions with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

10. SUBSEQUENT EVENT

A class action had been listed with the Superior Court on October 9, 2002 against a retailer and a wholesaler. On June 12, 2006, a Superior Court ruling was handed down ordering 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 took 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 ending March 31, 2006 under Claims and net trust fees.

MANAGEMENT'S REPORT

The financial statements of the Fonds d'indemnisation des clients des agents de voyages were drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and in a timely manner, are duly approved and can be used to prepare accurate financial statements.

The Fund's management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the Fund's financial statements as at March 31, 2006 in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome
Coordinator, Licensing Department

Yvan Turcotte
President of the Office de la
protection du consommateur

Québec, June 30, 2006

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES**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, 2006 as well as the statement of results and surplus 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 generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this Fund as at March 31, 2006, and the results of its operations and its cash flows for the fiscal year then ended in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 30, 2006

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER
(R.S.Q., c. C-73.1)

REVENUES, EXPENSES AND SURPLUS
for the year ended December 31, 2005

	<u>2005</u>	<u>2004</u>
REVENUES		
Dues	\$244 750	\$228 390
Investment income	<u>658 822</u>	<u>250 425</u>
	<u>903 572</u>	<u>478 815</u>
EXPENSES		
Management fees	93 024	90 402
Indemnities (Note 4)	129 786	55 267
Professional fees	26 046	11 727
Travel and accommodation expenses	13 486	12 544
Directors' fees	10 722	8 929
Publications	3 522	2 648
Office expenses	9 153	7 509
Communication and public relations	<u>108 681</u>	<u>61 069</u>
	<u>394 420</u>	<u>250 095</u>
EXCESS REVENUES OVER EXPENSES	509 152	228 720
SURPLUS, BEGINNING OF YEAR	<u>5 164 388</u>	<u>4 935 668</u>
SURPLUS, END OF YEAR	<u><u>\$5 673 540</u></u>	<u><u>\$5 164 388</u></u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIERBALANCE SHEET
as at December 31, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash on hand	\$26 348	\$98 474
Investments	5 816 780	5 100 275
Accounts receivable	197 634	183 804
Accrued interest	40 880	50 866
Prepaid expenses	<u>5 287</u>	<u>4 804</u>
	<u><u>\$6 086 929</u></u>	<u><u>\$5 438 223</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$44 667	\$27 705
Revenue collected in advance	205 470	192 130
Allowance for indemnities (Note 4)	<u>163 252</u>	<u>54 000</u>
	413 389	273 835
SURPLUS (Note 5)	<u>5 673 540</u>	<u>5 164 388</u>
	<u><u>\$6 086 929</u></u>	<u><u>\$5 438 223</u></u>
CONTINGENCY (Note 7)		

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 FINANCIAL STATEMENTS December 31, 2005

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

Investments

Bonds are entered at amortized cost. Discounts and premiums are amortized according to the straight-line method over the remaining term of each bond certificate. Amortization of bond discounts and premiums is entered as investment income.

3. FINANCIAL INSTRUMENTS

At December 31, 2005, the market value of investments was \$6 006 427 (December 31, 2004: \$5 653 825). These investments bear interest at rates varying between 3.3% and 6.4%.

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

4. PROVISION FOR CLAIMS

The Fonds' policy, on receiving a duly sworn claim, is to provide for the amount claimed to a maximum of \$15 000 and to maintain the provision until the board of directors' final decision.

	2005	2004
Opening balance	\$54 000	
Provision for claim for the year	159 786	\$55 267
Cancellation of claims from past years	(30 000)	
	129 786	55 267
Payment and claims	(20 534)	(1 267)
Closing balance	\$163 252	\$54 000

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

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

5. SURPLUS

Pursuant to the Regulation respecting the Fonds d'indemnisation du courtage immobilier, the Minister responsible for the administration of the Real Estate Brokerage Act may authorize the Fonds' board of directors to utilize, under certain conditions, interest yielded on the sums of money constituting the Fonds for purposes related to brokerage and promoting public protection. At December 31, 2005, the surplus, which includes all interest earned since the establishment of the Fonds, amounts to \$3 478 725 (December 31, 2004: \$2 819 903).

6. RELATED PARTY TRANSACTIONS

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

7. CONTINGENCY

Amendments to the Real Estate Brokerage Act, which were passed and came into effect on December 17, 2004, allow the Association des courtiers et agents immobiliers du Québec (ACAIQ) to create an insurance fund.

When the ACAIQ constitutes an insurance fund in keeping with the Real Estate Brokerage Act (R.S.Q., c. C-73.1), the Act stipulates that the Fonds d'indemnisation du courtage immobilier must pay, within three months, any amount exceeding \$2 500 000 of its equity level established the fifteenth day preceding its payment.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'indemnisation du courtage immobilier were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

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

Claudie Tremblay
Fund Secretary

Richard Cardinal
Fund Comptroller

Montréal, February 23, 2006

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, 2005 and the statement of revenue, expenses and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, February 23, 2006

FONDS EN FIDÉICOMMIS
(R.S.Q., c. D-5)

BALANCE SHEET
as at March 31, 2006
(in thousand of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	\$2 064	\$1 245
Securities held		
Bond holders	17 552	15 659
Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment	<u>434 358</u>	<u>387 610</u>
	<u><u>\$453 974</u></u>	<u><u>\$404 514</u></u>
LIABILITIES		
Deposits		
Goods and services tax	<u>\$357 020</u>	<u>\$312 893</u>
Deposits, guarantees, etc.		
Corporations, organizations and individuals	25 864	26 919
Officers of the law	57 643	53 138
Municipalities	<u>13 447</u>	<u>11 564</u>
	<u>96 954</u>	<u>91 621</u>
	<u><u>\$453 974</u></u>	<u><u>\$404 514</u></u>

François Tardif
Administrator, Fonds en fidéicommis

Jean Houde
Deputy Minister of Finance

FONDS EN FIDÉICOMMIS

CHANGE IN DEPOSITS
for the fiscal year ended March 31, 2006
(in thousand of dollars)

	Balance at March 31, 2005	Increase	Decrease	Balance at March 31, 2006
Goods and services tax	\$312 893	\$13 595 546	\$13 551 419	\$357 020
Deposits, guarantees, etc.				
Corporations, organizations and individuals	26 919	80 346	81 401	25 864
Officers of the law	53 138	98 770	94 265	57 643
Municipalities	11 564	5 531	3 648	13 447
	91 621	184 647	179 314	96 954
	<u>\$404 514</u>	<u>\$13 780 193</u>	<u>\$13 730 733</u>	<u>\$453 974</u>

FONDS EN FIDÉICOMMIS

NOTES TO FINANCIAL STATEMENT

March 31, 2006

(in thousand of dollars)

1. NATURE OF THE FONDS EN FIDÉICOMMIS AND ADMINISTRATIVE POLICIES

The Fonds en fidéicomis comprises:

- amounts of money and securities held for the purposes of deposits, sureties, guarantees, etc. paid under statutes, regulations, guidelines and agreements by corporations, organizations, individuals, officers of the law and municipalities. These deposits are made with the Ministère des Finances, which is a general deposit office under the Deposit Act (R.S.Q., c. D-5);
- amounts paid and credited for inputs administered for the Government of Canada as goods and services tax under an agreement with the Gouvernement du Québec.

Income from the securities held is remitted directly to the depositors of these securities and the administrative expenses of the Fonds are paid by the Consolidated Revenue Fund. These transactions are not presented in the financial statements.

2. ACCOUNTING POLICIES

The financial statements were prepared by management in keeping with the accounting principles generally recognized in Canada.

The securities held are presented at face value since they are remitted to the depositors at this value.

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds en fidéicomis as at March 31, 2006 and the statement of change in deposits for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds en fidéicomis as at March 31, 2006 and the change in deposits for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 25, 2006

FONDS NATIONAL DE FORMATION DE LA MAIN-D'ŒUVRE
(R.S.Q., c. D-7.1)

INCOME AND ACCUMULATED SURPLUS STATEMENT
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Employer contributions (Note 3)	22 202	24 686
Interest	1 640	1 176
Fees and charges	<u>791</u>	<u>817</u>
	<u>24 633</u>	<u>26 679</u>
EXPENSES		
Subsidies to employers	27 752	20 302
Management fees (Note 4)	4 161	3 956
Contribution collection fees	367	734
Promotion and advertising	8	4
Depreciation of fixed assets	<u>1</u>	<u>1</u>
	<u>32 289</u>	<u>24 997</u>
ANNUAL (DEFICIT) SURPLUS	(7 656)	1 682
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>88 847</u>	<u>87 165</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>81 191</u></u>	<u><u>88 847</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Advance from the Consolidated Revenue Fund (Note 5)	65 248	73 223
Employer contributions receivable	17 623	17 159
Accounts receivable (Note 6)	<u>744</u>	<u>733</u>
	83 615	91 115
Fixed assets (Note 7)	<u> </u>	<u>1</u>
	<u>83 615</u>	<u>91 116</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	2 424	2 269
ACCUMULATED SURPLUS	<u>81 191</u>	<u>88 847</u>
	<u>83 615</u>	<u>91 116</u>
COMMITMENTS (Note 8)		

The notes are an integral part of these financial statements.

Claude Blouin
for Dominique Savoie,
Acting Associate Deputy Minister - Emploi-Québec
Ministère de l'Emploi et de la Solidarité sociale

François Turenne
Deputy Minister
Ministère de l'Emploi et de la Solidarité sociale

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Fonds national de formation de la main-d'oeuvre was established under the Act to foster the development of manpower training (R.S.Q., c. D-7.1). Its purpose is to promote and support measures and initiatives related to manpower training. The Minister of Employment and Social Solidarity is responsible for administering the Fonds.

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

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Fonds' cash position during the year.

Employer contributions

By virtue of the provisions of its incorporating legislation, employers are required to pay a contribution to the Fonds, corresponding to the difference between the minimum participation and eligible training expenditures for the calendar year. These employer contributions, which are collected by the Minister of Revenue on behalf of the Fonds, are recorded on the basis of the amount reported by the employers for the preceding calendar year and are subject to audit and adjustment. Where applicable, adjustments are posted to employer contribution revenue during the fiscal year in which they are known.

Interest, royalties and fees

Interest, royalties and fees are recorded when earned, provided that measurement and collection of the amount in question 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. The recovery of subsidy overpayments is posted to reducing the expenditures of the fiscal year in which they are recovered or recoverable.

Fixed assets

Fixed assets are recorded at cost. Amortization is calculated using the straight-line method over the following period:

Data processing equipment	3 years

3. EMPLOYER CONTRIBUTIONS

	2006	2005
Amount declared for the year	17 042	16 812
Amount related to previous years	5 160	7 874
	<u>22 202</u>	<u>24 686</u>

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

4. MANAGEMENT FEES

As stipulated in the Act to foster the development of manpower training, the Commission des partenaires du marché du travail restricted the amounts that could be taken from the Fonds for remuneration and expenses related to fringe benefits and other working conditions of employees involved in the application of chapters II and III of the Act. The amounts correspond to the salaries and fringe benefits of 59 FTEs for the fiscal year ended March 31, 2006 (58 in 2005). 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 presented in the Fonds' financial statements.

5. ADVANCE FROM THE CONSOLIDATED REVENUE FUND

The advance bears interest at the reduced bank prime rate of 2.5%, which represents 3% at March 31, 2006 and includes no terms and conditions of repayment.

6. ACCOUNTS RECEIVABLE

	2006	2005
Interest receivable – Consolidated Revenue Fund	480	330
Employer subsidy overpayments	264	321
Other		82
	<u>744</u>	<u>733</u>

7. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Data processing equipment	<u>24</u>	<u>24</u>	<u>1</u>

8. COMMITMENTS

The Fonds committed to providing financial support for projects designed to promote and support the manpower training measures and initiatives. The balance of commitments at March 31, 2006 was \$24 297 614 (\$14 126 718 at March 31, 2005).

9. RELATED PARTY TRANSACTIONS

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

10. FINANCIAL INSTRUMENTS

The fair value of the financial instruments recorded in the financial statement (short-term assets and liabilities) is equivalent to their book value given that they mature in the near future.

FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE**MANAGEMENT'S REPORT**

The financial statements of the Fonds national de formation de la main-d'oeuvre were drawn up by Fonds management, which is responsible for their preparation, presentation and significant judgements and estimates. This responsibility includes choosing accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to give reasonable assurance that assets are safeguarded and that the transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Fonds management recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. It approved the financial statements.

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

Claude Blouin
for Dominique Savoie
Acting Associate Deputy Minister - Emploi-Québec
Ministère de l'Emploi et de la Solidarité sociale

François Turenne
Deputy Minister
Ministère de l'Emploi et de la Solidarité sociale

Québec, July 20, 2006

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, 2006 and the income and accumulated surplus statement for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 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 fiscal year.

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

Québec, July 20, 2006

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES
(R.S.Q., c. M-30.01)

REVENUES, EXPENSES AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 3)	\$40 841 445	\$40 874 579
INTEREST AND OTHER REVENUE	<u>1 275 685</u>	<u>1 349 518</u>
	<u>42 117 130</u>	<u>42 224 097</u>
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	27 646 261	29 609 866
Scholarships	<u>8 636 075</u>	<u>8 275 082</u>
	<u>36 282 336</u>	<u>37 884 948</u>
	5 834 794	4 339 149
OPERATING EXPENSES (Note 4)	<u>4 528 146</u>	<u>4 757 191</u>
SURPLUS (INSUFFICIENT) REVENUE OVER EXPENDITURE	1 306 648	(418 042)
SURPLUS, BEGINNING OF YEAR	<u>2 018 481</u>	<u>2 436 523</u>
SURPLUS, END OF YEAR (Note 5)	<u><u>\$3 325 129</u></u>	<u><u>\$2 018 481</u></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, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 266 154	\$1 010 650
Term deposit (3.90%, maturing February 15, 2007)	5 500 000	3 500 000
Accrued interest	16 560	10 884
Subsidies and other accounts receivable (Note 6)	2 461 896	2 474 531
Prepaid expenses	80 063	83 729
	<u>9 324 673</u>	<u>7 079 794</u>
Sums held on behalf of granting agencies (Note 7)	1 402 109	1 839 116
Fixed assets (Note 8)	304 143	625 320
Intangible assets (Note 9)	<u>587 725</u>	<u>744 930</u>
	<u><u>\$11 618 650</u></u>	<u><u>\$10 289 160</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 11)	\$601 734	\$752 361
Deferred subsidies from agencies	6 188 376	5 510 649
Deferred government subsidies	92 509	165 498
Instalment on long-term debt (Note 12)	2 137	
	<u>6 884 756</u>	<u>6 428 508</u>
Long-term debt (Note 12)	3 076	
Amounts payable on behalf of granting agencies (Note 7)	<u>1 405 689</u>	<u>1 842 171</u>
	8 293 521	8 270 679
SURPLUS (Note 5)	<u>3 325 129</u>	<u>2 018 481</u>
	<u><u>\$11 618 650</u></u>	<u><u>\$10 289 160</u></u>
COMMITMENTS (Note 13)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Sylvie Dillard
Brigitte Jaunard

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la nature et les technologies was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The purpose of the Fonds is to promote and provide financial assistance for research and dissemination of knowledge in the natural sciences, mathematics and engineering; for research training by granting proficiency scholarships to graduate students and individuals conducting post-graduate research, professional development scholarships to those wishing to re-enter research circles and subsidies to enable college professors involved in research activities to reduce their teaching load.

Further, the Fonds manages, for itself, for the Fonds de la recherche en santé du Québec and for the Fonds québécois de la recherche sur la société et la culture, graduate student scholarships programs and subsidy programs designed to release professors from their teaching duties. It establishes all necessary partnerships, notably with universities, colleges, the industry, government departments and the public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la nature et les technologies is an agent of the Gouvernement du Québec. As such, it is not subject to income tax.

2. ACCOUNTING POLICIES

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

Subsidies from the Gouvernement du Québec and other agencies

Subsidies from the Gouvernement du Québec and other agencies are accounted for as products of the fiscal year during which the related expenses were incurred. Unappropriated subsidies are posted to proceeds when they are received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are recorded once they have been authorized and the recipients have met the eligibility criteria. Cancellations or reimbursement of grants and scholarships awarded are recorded in the fiscal year in which they are cancelled or reimbursed.

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 determined or can be determined and recovery is reasonably certain.

Fixed assets

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

	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 estimated service life using the straight-line method at 20%.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Depreciation of long-term assets

Long-term assets undergo a depreciation test when events or circumstances indicate that their book value exceeds total unactualized cash flows resulting from the use and eventual withdrawal of these assets. A loss in value must be calculated as the amount of the surplus of the book value of a long-term asset over its fair value. At March 31, 2006, no loss in value had been reported.

3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2006	2005
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$35 530 100	\$35 530 100
Partenaires des Actions concertées	3 941 962	4 430 311
Partnership projects (CANTOR)	757 823	843 842
Other	611 560	70 326
	<u>\$40 841 445</u>	<u>\$40 874 579</u>

4. OPERATING EXPENSES OF THE FONDS

	2006	2005
Salaries		
Wages	\$2 596 461	\$2 761 224
Training and professional development	23 290	13 310
Professional dues	749	1 271
	<u>2 620 500</u>	<u>2 775 805</u>
Services		
Fees	365 617	375 214
Lease		
Rent	212 168	200 569
Insurance	17 426	8 245
Maintenance and repairs	171 533	150 972
Rental	3 080	21 592
	<u>404 207</u>	<u>381 378</u>
Communications	87 310	97 384
Transportation and accommodations	183 744	151 018
Other expenses		
Telecommunications	55 134	74 413
Photocopies	43 741	23 569
Mailing costs	38 024	30 835
Office expenditures	37 525	45 056
Other expenses	3 170	7 982
Financial charges	228	47
	<u>177 822</u>	<u>181 902</u>
Amortization		
Fixed assets	418 177	501 971
Intangible assets	270 769	292 519
	<u>688 946</u>	<u>794 490</u>
	<u>\$4 528 146</u>	<u>\$4 757 191</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. SURPLUS

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs and an amount for its partnership project (CANTOR) involving Québec's other two research support funds. The Fonds cannot use these amounts set aside for appropriations of inside origin for other purposes without the board of directors' prior consent. These appropriations break down as follows:

	2006	2005
Research scholarships and grants	\$2 113 852	\$861 455
Partnership project (CANTOR)	77 656	162 227
	<u>\$2 191 508</u>	<u>\$1 023 682</u>

6. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE

	2006	2005
Fonds québécois de la recherche sur la société et la culture	\$360 262	\$458 947
Ministère du Développement économique, de l'Innovation et de l'Exportation	50 000	116 666
Fonds de la recherche en santé du Québec	154 450	1 216
Ministère des Ressources naturelles et de la Faune	1 600 000	1 600 000
Canadian Institutes of Health Research	297 144	295 851
Other	40	1 851
	<u>\$2 461 896</u>	<u>\$2 474 531</u>

7. SUMS HELD ON BEHALF OF GRANTING AGENCIES

Under agreements entered into with a few agencies, the Fonds assumes certain operations related to the allocation of research grants in specific fields. The Fonds acts solely as an intermediary by providing expertise in this matter. Except for management fees, these operations are not shown in the Fonds' operating results.

The operations related to these agreements break down as follows:

	Perspectives STS	Environment	Highway safety	Optical development	Total
Opening balance	\$317 420	\$702 977	\$23 803	\$797 971	\$1 842 171
Increase					
Interest on bank deposits	7 664	16 429		17 924	42 017
	<u>325 084</u>	<u>719 406</u>	<u>23 803</u>	<u>815 895</u>	<u>1 884 188</u>
Decrease					
Research grants	131 478	132 003	23 803	183 551	470 835
Transfer of interest to Fonds	7 664				7 664
	<u>139 142</u>	<u>132 003</u>	<u>23 803</u>	<u>183 551</u>	<u>478 499</u>
Closing balance	<u>\$185 942</u>	<u>\$587 403</u>		<u>\$632 344</u>	<u>\$1 405 689</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

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

7. SUMS HELD ON BEHALF OF GRANTING AGENCIES (cont'd)

These amounts break down as follows:

	Total
Amounts held for subsidizing agencies – cash	\$1 402 109
Accrued interest	3 580
	<u>\$1 405 689</u>

8. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$221 942	\$143 902	\$78 040	\$95 518
Data processing equipment	897 169	797 141	100 028	328 435
Leasehold improvements	376 458	250 383	126 075	201 367
	<u>\$1 495 569</u>	<u>\$1 191 426</u>	<u>\$304 143</u>	<u>\$625 320</u>

Disbursements related to acquisitions for the fiscal year are \$97 000 (2005: \$215 207).

9. INTANGIBLE ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Computer development	\$1 353 846	\$766 121	\$587 725	\$744 930

Disbursements related to the fiscal year's acquisitions are \$113 564 (2005: \$593 012).

10. FACILITATE CREDIT LINE

The Fonds has a facilitate credit line of up to \$10 000 000 with the Financing Fund until March 31, 2007. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2006, there was no balance owing on the facilitate credit line.

11. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Fonds québécois de la recherche sur la société et la culture	\$142 941	\$330 748
Fonds de la recherche en santé du Québec	4 224	62 225
Suppliers	454 569	359 388
	<u>\$601 734</u>	<u>\$752 361</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. LONG-TERM DEBT**

	2006	2005
Note payable to Rogers Télécom inc., fixed rate of 6.56% repayable in monthly instalments of \$201 in and interest, maturing in July 2008	\$5 213	
Payments maturing in less than one year	2 137	
	<u>\$3 076</u>	

Amounts of capital payments to be paid over the next three fiscal years break down as follows:

2006-2007	\$2 137
2007-2008	2 281
2008-2009	795

Interest paid on the debt totalled \$261.

13. COMMITMENTS

At March 31, 2006, the Fonds' commitments totalled \$32 829 445 (2005: \$43 432 211) for grants and \$8 531 832 (2005: \$9 389 770) for scholarships. Awarding of these grants and scholarships, however, depends on the funds allocated by the National Assembly.

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 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

15. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future and the commercial conditions they include.

The fair value of amounts payable for subsidizing agencies is equal to its book value, given that these amounts comprise short-term financial assets.

The fair value of obligations resulting from elements of 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 the same conditions and similar terms.

The following table shows the book value and fair value of the Fonds' long-term financial instruments:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt (including the short-term portion)	<u>\$5 213</u>	<u>\$5 375</u>		

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$97 432 (2005: \$100 454) and represent current service pension costs.

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 québécois de la recherche sur la nature et les technologies were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The other financial information contained in the annual activity report concurs with the information given in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fond recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors must oversee the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Sylvie Dillard
President and Chief Executive Officer

Lucie Girard
Director of Administration and Evaluation

Québec, May 26, 2006

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, 2006 and the revenues, expenses and surplus statement for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2006 and the application of subsidies and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 26, 2006

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE
(R.S.Q., c. M-30.01)

REVENUES, EXPENSES AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 3)	\$46 564 052	\$46 443 787
INTEREST AND OTHER REVENUE	<u>630 907</u>	<u>548 544</u>
	<u>47 194 959</u>	<u>46 992 331</u>
 GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	29 978 962	27 517 144
Scholarships	<u>14 083 789</u>	<u>13 612 342</u>
	<u>44 062 751</u>	<u>41 129 486</u>
	3 132 208	5 862 845
OPERATING EXPENSES (Note 4)	<u>3 786 532</u>	<u>4 062 707</u>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	(654 324)	1 800 138
SURPLUS, BEGINNING OF YEAR	<u>3 223 344</u>	<u>1 423 206</u>
SURPLUS, END OF YEAR (Note 5)	<u><u>\$2 569 020</u></u>	<u><u>\$3 223 344</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, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$1 139 607	\$787 013
Term deposit (3.90%, maturing February 15, 2007)	7 500 000	8 000 000
Accrued interest	14 527	13 140
Subsidies and other accounts receivable (Note 6)	2 821 778	1 263 840
Prepaid expenses	21 578	10 142
	<u>11 497 490</u>	<u>10 074 135</u>
Fixed assets (Note 7)	249 840	432 664
Intangible assets (Note 8)	<u>174 453</u>	<u>255 391</u>
	<u>\$11 921 783</u>	<u>\$10 762 190</u>
LIABILITIES		
Current liabilities		
Grants and scholarships payable (Note 10)		\$12 475
Accounts payable and accruals (Note 11)	\$675 110	725 715
Deferred subsidies from agencies	8 414 921	6 457 902
Instalment on long-term debt (Note 12)	81 628	80 022
	<u>9 171 659</u>	<u>7 276 114</u>
Long-term debt (Note 12)	<u>181 104</u>	<u>262 732</u>
	9 352 763	7 538 846
SURPLUS (Note 5)	<u>2 569 020</u>	<u>3 223 344</u>
	<u>\$11 921 783</u>	<u>\$10 762 190</u>
COMMITMENTS (Note 13)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Louise Dandurand
Alain Noël

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la société et la culture was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The Fonds' purpose is to promote and provide financial assistance for the development of research into and dissemination of knowledge in the social sciences, humanities, education, management, arts and literature; researcher training through the allocation of scholarships to graduate students and individuals doing post-doctoral research, the allocation of professional development bursaries for those wishing to re-enter research circles and the allocation of subsidies to lighten the workloads of college professors involved in research activities. It establishes all partnerships required, notably with the universities, colleges, cultural institutions, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la société et la culture is an agent of the Gouvernement du Québec and, as such, is not subject to federal or provincial income tax.

2. ACCOUNTING POLICIES

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

Subsidies from the Gouvernement du Québec and other organizations

Subsidies from the Gouvernement du Québec and other organizations are totalled as proceeds for the fiscal year in which the related expenses are incurred. Unappropriated subsidies are posted to proceeds when they are received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are totalled when authorized and when the recipients have met the eligibility criteria. Cancellations or repayments of grants and scholarships awarded are totalled 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 determined or can be determined and recovery is reasonably certain.

Fixed assets

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

	<u>Rate</u>
Office furniture and equipment	20%
Data processing equipment	33.33%
Leasehold improvements	20%

Intangible assets

Computer development is totalled at cost and amortized over its service life using the straight-line method at 20%.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)

Depreciation of long-term assets

Long-term assets undergo a depreciation test when events or circumstances indicate that their book value exceeds total unactualized cash flows resulting from the use and eventual withdrawal of these assets. A loss in value must be calculated as the amount of the surplus of the book value of a long-term asset over its fair value. At March 31, 2006, no loss in value had been reported.

3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2006	2005
Ministère du Développement économique, de l'Innovation et de l'Exportation	\$43 137 400	\$43 137 400
Partenaires des Actions concertées	3 421 652	3 282 382
Other	5 000	24 005
	<u>\$46 564 052</u>	<u>\$46 443 787</u>

4. OPERATING EXPENSES OF THE FONDS

	2006	2005
Salaries		
Wages	\$2 052 917	\$2 048 850
Training and professional development	7 414	12 565
Professional dues	749	3 908
	<u>2 061 080</u>	<u>2 065 323</u>
Services		
Fees	663 626	899 529
Lease		
Rent	262 745	263 136
Insurance	17 811	13 658
Maintenance and repairs	36 936	25 630
Rental	2 850	23 604
	<u>320 342</u>	<u>326 028</u>
Communications	53 047	75 442
Transportation and accommodations	234 677	219 725
Other expenses		
Telecommunications	47 102	62 264
Photocopies	33 969	18 278
Mailing costs	19 475	17 616
Office expenditures	24 541	25 534
Other expenses	3 276	7 193
Financial charges	18 772	23 978
	<u>147 135</u>	<u>154 863</u>
Amortization		
Fixed assets	214 178	231 652
Intangible assets	92 447	90 145
	<u>306 625</u>	<u>321 797</u>
	<u>\$3 786 532</u>	<u>\$4 062 707</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. SURPLUS**

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs. The Fonds cannot use these amounts set aside for appropriations of inside origin for other purposes without the board of directors' prior consent. These appropriations break down as follows:

	2006	2005
Research scholarships and bursaries	<u>\$1 901 853</u>	<u>\$3 061 852</u>

6. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE

	2006	2005
Fonds québécois de la recherche sur la nature et les technologies	\$142 941	\$330 748
Ministère du Développement régional, de l'Innovation et de l'Exportation		55 000
Fonds de la recherche en santé du Québec	72	21 376
Ministère de l'Éducation, du Loisir et du Sport	1 200 000	10 000
Ministère de la Santé et des Services sociaux	995 265	745 000
Other partners	<u>483 500</u>	<u>101 716</u>
	<u>\$2 821 778</u>	<u>\$1 263 840</u>

7. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$246 029	\$180 434	\$65 595	\$106 741
Data processing equipment	164 723	140 069	24 654	56 268
Leasehold improvements	<u>550 322</u>	<u>390 731</u>	<u>159 591</u>	<u>269 655</u>
	<u>\$961 074</u>	<u>\$711 234</u>	<u>\$249 840</u>	<u>\$432 664</u>

Disbursements related to the fiscal year's acquisitions are \$31 354 (2005: \$78 586).

8. INTANGIBLE ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Data processing development	<u>\$462 234</u>	<u>\$287 781</u>	<u>\$174 453</u>	<u>\$255 391</u>

Disbursements related to the fiscal year's acquisitions are \$11 509 (2005: \$97 208).

9. FACILITIES CREDIT LINE

The Fonds has a credit line of up to \$10 000 000 with the Financing Fund until March 31, 2007. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2006, there was no balance owing on the credit line.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. GRANTS AND SCHOLARSHIPS PAYABLE

	2006	2005
Fonds québécois de la recherche sur la nature et les technologies	<u>\$12 475</u>	<u>\$12 475</u>

11. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Fonds québécois de la recherche sur la nature et les technologies	\$360 262	\$446 472
Fonds de la recherche en santé du Québec	1 350	6 021
Others	313 498	273 222
	<u>\$675 110</u>	<u>\$725 715</u>

12. LONG-TERM DEBT

	2006	2005
Note payable to the Société immobilière du Québec, fixed rate of 6.68%, repayable in monthly instalments of \$3 649 in capital and interest, maturing in February 2007	\$38 835	\$78 582
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	<u>223 897</u> 262 732	<u>264 172</u> 342 754
Instalment due within one year	<u>81 628</u>	<u>80 022</u>
	<u>\$181 104</u>	<u>\$262 732</u>

Payments of principal for the next five fiscal years are as follows:

2006-2007	\$81 628
2007-2008	45 470
2008-2009	48 311
2009-2010	51 331
2010-2011	35 992

Interest paid on the debt totalled \$19 000 (2005: \$23 931).

13. COMMITMENTS

As at March 31, 2006, Fonds commitments amount to \$45 148 554 (2005: \$45 906 487) for grants and \$16 726 006 (2005: \$12 320 019) for scholarships. Whether these grants and scholarships are awarded depends on the appropriations allotted by the National Assembly.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. RELATED PARTY TRANSACTIONS

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

15. FINANCIAL INSTRUMENTS

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

The following table indicates the book value and fair value of the Fonds' long-term financial instruments:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$262 732</u>	<u>\$272 344</u>	<u>\$342 754</u>	<u>\$359 950</u>

16. FUTURE FRINGE BENEFITS

The supplemental pension plan for staff members of the Fonds is a defined-contribution plan. The liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$75 428 (2005: \$74 098) and represent current service pension costs.

17. COMPARATIVE FIGURES

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

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 drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The other financial information contained in the annual activity report concurs with the information shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Louise Dandurand
President and Chief Executive Officer

Lucie Girard
Vice-president of Administration and Information

Québec, May 26, 2006

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, 2006 and the revenues, expenses and surplus statement for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 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, May 26, 2006

HÉMA-QUÉBEC
(R.S.Q., c. H-1.1)

OPERATING RESULTS
for the year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Blood products sold to Québec hospitals	250 485	
Grant from the Government of Québec	2 167	258 282
Interest on term deposits	1 143	742
Other income	<u>1 627</u>	<u>1 744</u>
	255 422	260 768
EXPENSES (Note 4)	<u>254 228</u>	<u>258 330</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>1 194</u></u>	<u><u>2 438</u></u>

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

NET ASSETS
for the year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
NET ASSETS AT BEGINNING OF YEAR	17 291	14 853
Excess of revenues over expenses	<u>1 194</u>	<u>2 438</u>
	18 485	17 291
Transfer to the Government of Québec (Note 3)	<u>17 291</u>	
NET ASSETS AT END OF YEAR	<u><u>1 194</u></u>	<u><u>17 291</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>2006</u>	<u>2005</u>
ASSETS		
Short-term		
Cash	4 592	9 709
Short-term investments (Note 5)	91	7 343
Accounts receivable (Note 6)	8 208	9 019
Grant forthcoming from the Government of Québec	83	137
Inventory (Note 7)	16 767	18 632
Prepaid expenses (Note 8)	4 859	4 655
	<u>34 600</u>	<u>49 495</u>
Fixed assets (Note 9)	37 605	38 353
Deferred charges (Note 10)	1 695	1 755
Accrued benefit asset (Note 14)	1 199	554
	<u>75 099</u>	<u>90 157</u>
LIABILITIES		
Short-term		
Accounts payable and accrued liabilities (Note 12)	27 860	30 420
Advance from the Government of Québec, non interest bearing	4 546	
Payment on long-term debt (Note 13)	5 216	5 701
	<u>37 622</u>	<u>36 121</u>
Long-term debt (Note 13)	33 334	33 933
Accrued benefits liability (Note 14)	2 949	2 812
NET ASSETS	<u>1 194</u>	<u>17 291</u>
	<u>75 099</u>	<u>90 157</u>

COMMITMENTS (Note 16)

On behalf of the Board of Directors
Cheryl Campbell Steer, Director
Jean-Pierre Allaire, Director

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

HÉMA-QUÉBEC

CASH FLOWS
for the year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Items not affecting cash and cash equivalents		
Excess of revenues over expenses	1 194	2 438
Depreciation of fixed assets	4 632	4 393
Depreciation of deferred charges	60	120
Loss on write-offs and disposal of assets	42	138
Unrealized exchange loss	340	1 538
Increase in accrued benefit asset	(645)	(555)
Increase (decrease) in accrued benefit liability	137	(404)
	<u>5 760</u>	<u>7 668</u>
Changes in non-cash working capital		
Decrease in accounts receivable	811	175
Decrease in grant forthcoming from the Government of Québec	54	69
Decrease in inventory	1 865	1 170
Increase in prepaid expenses	(204)	(1 256)
Increase in deferred charges		(1 876)
Increase (decrease) in payables and accrued liabilities	(2 560)	6 070
Increase in advance from the Government of Québec	4 546	
	<u>10 272</u>	<u>12 020</u>
INVESTING ACTIVITIES		
Acquisition of fixed assets	(3 928)	(5 126)
Proceeds from disposal of fixed assets	2	
	<u>(3 926)</u>	<u>(5 126)</u>
FINANCING ACTIVITIES		
Long-term debt	4 614	6 300
Settlement of long-term debt	(5 698)	(5 984)
Decrease in net assets	(17 291)	
	<u>(18 375)</u>	<u>316</u>
Unrealized loss on exchange on cash and non-cash elements of working capital denominated in foreign currency	<u>(340)</u>	<u>(1 538)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(12 369)</u>	<u>5 672</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17 052</u>	<u>11 380</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>4 683</u>	<u>17 052</u>

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

HÉMA-QUÉBEC

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

Cash and cash equivalents are as follows:

	<u>2006</u>	<u>2005</u>
Cash	4 592	9 709
Short-term investments	<u>91</u>	<u>7 343</u>
	<u>4 683</u>	<u>17 052</u>
 Interest paid	 <u>1 992</u>	 <u>2 032</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, 2006
(in thousands of dollars)

1. INCORPORATION AND FUNCTIONS

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 the Act respecting Héma-Québec and the haemovigilance committee (S.Q., 1998, Chapter C-41). Héma-Québec is a non-profit legal entity whose mission is to efficiently provide adequate quantities of safe, optimal blood components, substitutes, human tissues and umbilical cord blood to meet the needs of all Quebecers, and to provide and develop expertise, services, and specialized and innovative products in the fields of transfusion medicine and human tissue transplantation.

2. SIGNIFICANT ACCOUNTING POLICIES

In preparing the financial statements of Héma-Québec in accordance with Canadian generally accepted accounting principles, Management used best estimates and judgments in certain instances. These estimates affect the accounting for assets and liabilities, the presentation of potential assets and liabilities at the financial statement date, as well as the accounting for revenues and expenses during the period covered by the financial statements. Actual results may differ from these estimates.

Recording of revenues

Revenues resulting from the sale of blood products are recorded at the time of delivery and when payment is reasonably secured.

Inventory

The inventory of fractionation products and of collection 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 on the economic life of these fixed assets, using the straight-line depreciation method and at the following rates:

Tangible assets

Building	4%
Betterment	5%
Leasehold improvements	length of lease
Automotive equipment	20%
Machinery and equipment	10% and 20%
Office furniture and equipment	20%
Computer equipment	33 1/3%

Intangible assets

Computer software	33 1/3%
Software packages	20%

Foreign currencies translation

Foreign currencies transactions are accounted for the average rate of the transaction date. Monetary items are translated at the exchange rate in effect at the balance sheet date whereas non-monetary items are translated at the exchange rate in effect on the date of the transaction. Exchange gains or losses related to monetary items are included in the results for the current period.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefit plans**

Héma-Québec provides defined benefit and defined contribution employee pension plans. Both Héma-Québec and the plan members contribute to these plans. 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 insurance and life insurance benefits.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method, prorated 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 as at the valuation date. Pension plan assets are evaluated at fair value. This same method is used to calculate the expected performance of plan assets.

Actuarial losses and gains result, among other things, from the 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 current year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the value of the assets, whichever is greater.

This excess 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 the other benefit plans.

The transitional obligation and the past service costs are normally amortized over the average remaining service period of active employees.

Cash and cash equivalents

Héma-Québec's policy is to present bank balances – including the debit or credit balance of accounts with overdraft facilities and short-term investments whose maturity dates do not exceed three months from their 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 totalling \$17 291 as at March 31, 2005 were transferred to the government in February 2006.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

4. EXPENSES BY RESPONSIBILITY CENTRE

	2006				2005
	Labile products	Fractionated products	Other services	Total	Total
Wages and benefits	62 531	332	1 760	64 623	64 824
Medical and blood drive supplies	29 256	324	180	29 760	31 363
Fractionated products		121 895		121 895	124 135
Purchased services	(527)	2 384	2 020	3 877	4 010
Loss on write-offs and disposal of assets	42			42	138
Exchange loss (gain)	(227)	173		(54)	904
Depreciation of fixed asset	4 377	166	89	4 632	4 393
Interest on long-term debt	1 980			1 980	2 032
Insurance	8 114			8 114	7 298
Other expenses	18 770	320	269	19 359	19 233
Subtotal	124 316	125 594	4 318	254 228	258 330
Plasma for fractionation*	(9 447)	9 447			
Total	114 869	135 041	4 318	254 228	258 330

* 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 \$91 (\$85 in 2005) in a trust account, recorded at cost, bearing interest at the rate of 1.30%. As at March 31, 2005 Héma-Québec also had a term deposit of \$7 258 bearing interest at the rate of 2.74%.

6. ACCOUNTS RECEIVABLE

	2006	2005
Trade accounts receivables	174	85
Sales taxes	1 547	2 091
Security deposit	6 190	6 411
Other accounts receivable	297	432
	8 208	9 019

7. INVENTORY

	2006	2005
Fractionated products and substitutes	14 136	15 904
Collection equipment	1 788	1 862
Laboratory equipment	843	866
	16 767	18 632

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

8. PREPAID EXPENSES

	2006	2005
Insurances	3 682	3 205
Other	1 177	1 450
	<u>4 859</u>	<u>4 655</u>

9. FIXED ASSETS

	2006	2006	2005
	Cost	Accumulated depreciation	Net value
Tangible assets			
Land	2 140		2 140
Building	19 699	3 519	16 180
Betterment	7 617	1 670	5 947
Leasehold improvements *	1 582	476	1 106
Automotive equipment	40	19	21
Machinery and equipment	12 024	5 200	6 824
Office furniture and equipment	3 600	2 264	1 336
Computer equipment	7 668	5 884	1 784
	<u>54 370</u>	<u>19 032</u>	<u>35 338</u>
Intangible assets			
Software and software packages *	6 219	3 952	2 267
	<u>60 589</u>	<u>22 984</u>	<u>37 605</u>
			<u>38 353</u>

* The accumulated cost of work in progress, as at March 31, 2006, totals \$685, excluding taxes, of which \$249 included in leasehold improvements and \$436 in the software and software packages. The amortization of these assets will begin when the projects have been completed.

10. DEFERRED CHARGES

Under an emphyteutic lease, Héma-Québec initially paid \$1 875 to obtain the right to occupy premises at Université Laval for a period of 30 years expiring in 2034. The amortization for the current period is \$60 and was recorded in the statements under "Building and premises". The accumulated amortization using the straight-line method amounts to \$180 (120 in 2005).

11. BANK OVERDRAFT

As at March 31, 2006, 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

	2006	2005
Suppliers	22 006	24 001
Salaries and fringe benefits	5 854	6 419
	<u>27 860</u>	<u>30 420</u>

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

13. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
Loan, secured by the land and the building, with a net book value of \$18 320, repayable in monthly instalments of \$36 (including capital and interest), at a fixed rate of 6.19%, renewable in 2008 and falling due in 2023.	4 679	4 819
Loan, secured by the land and building, with a net book value of \$18 320, repayable in monthly instalments of \$54 (capital only), at a fixed rate of 5.79%, renewable in 2009 and falling due in 2027.	13 769	14 414
Loan, repayable in monthly instalments of \$100 (including capital and interest), at fixed rate of 6.01%, falling due in 2008.	2 949	4 723
Loans, repayable in monthly instalments of \$228 (capital only) and annual payments of \$256 (capital only), at fixed rates varying from 3.16% to 4.98%, falling due between 2007 and 2012.	10 154	13 152
Loan, repayable by monthly instalments of \$30 (capital only), at a fixed rate of 5.17 % and 5.41%, renewable in 2010 and 2013 and falling due in 2023 and 2026.	6 999	2 526
	<u>38 550</u>	<u>39 634</u>
Portion of long term debt payable within one year	<u>(5 216)</u>	<u>(5 701)</u>
	<u>33 334</u>	<u>33 933</u>

The instalments on long-term debt required during the next five years are as follows:

2007	5 216
2008	4 823
2009	4 091
2010	2 843
2011	1 638

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.

Before January 1, 2004, Héma-Québec also offered defined contribution plans to certain employees. As of April 1, 2005, the employees with entitlements under the defined contribution plans were given the opportunity to convert these entitlements to defined benefit plans. The impact of this event was reflected in the statements as at March 31, 2005.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

14. DESCRIPTION OF BENEFIT PLANS (cont'd)**Total cash payments**

Total cash payments for future benefits for 2006, 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 contributions plan, amounted to \$6 650 (\$6 351 in 2005).

Dates for valuations of defined benefit plans

Héma-Québec determines its accrued benefits obligations and the fair value of the 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 most recent actuarial valuation	Date of mandatory actuarial valuation
Unionized employees' pension plan	December 31, 2002	December 31, 2005
Pension plan for management, professional, technical and administrative support staff	December 31, 2002	December 31, 2005

Composition of defined benefit plan assets
(in % as at March 31)

	2006	2005
Shares	54%	61%
Bonds	38%	35%
Other	8%	4%
Total	100%	100%

Reconciliation of financial position and amounts recorded in the financial statements

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	67 462		56 433	
Accrued benefit obligation	80 273	4 198	64 206	3 973
Financial position – deficit	(12 811)	(4 198)	(7 773)	(3 973)
Unamortized transitional obligation	36		41	
Cost of benefits for unamortized past services	2 353	55	2 547	109
Net, unamortized actuarial losses	11 621	1 194	5 739	1 052
Accrued benefit asset (liability) at end of current year	1 199	(2 949)	554	(2 812)
Classification of amounts recorded in Héma-Québec's financial statements				
Accrued benefit asset	1 199		554	
Accrued benefit liability		2 949		2 812

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

14. DESCRIPTION OF BENEFIT PLANS (cont'd)**Reconciliation of financial position and amounts recorded in the financial statements (cont'd)**

The accrued benefit obligation exceeds plan assets for all Héma-Québec plans.

Cost recorded for the current year

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Cost recorded for employee future benefits	<u>3 715</u>	<u>2 428</u>	<u>3 045</u>	<u>2 347</u>

Main assumptions

	2006		2005	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation as at March 31				
Discount rate	5.25%	5.25%	5.75%	5.75%
Rate of salary increase	4.00%	4.00%	4.00%	4.00%
Cost of benefit for year ended March 31				
Discount rate	5.75%	5.75%	6.00%	6.00%
Expected rate of return on plan assets	7.00%		7.25%	
Rate of salary increase	4.00%	4.00%	4.00%	4.00%

Assumed trend rates for health-care costs

	2006	2005
Initial trend rate of health-care costs as at March 31	8.00%	8.50%
Level towards which trend rate is declining	5.00%	5.00%
Year when the rate is expected to stabilize	2013	2013

15. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

As at March 31, 2006, the fair value of the long-term debt of \$38 550 (\$39 634 in 2005) totalled \$38 362 (\$41 811 in 2005), 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, 2006
(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, short-term investment, bank overdraft, accounts payable and accrued liabilities and advance from the government corresponds to their book value, given their short term to maturity.

DERIVATIVE INSTRUMENTS**Foreign exchange contract**

Héma-Québec has entered into four contracts to purchase American currency in the amount of \$45 000 at a rate of 1.1871 for the period from April 3 to September 29, 2006 in the amount of \$13 500 at a rate of 1.1563 for the period from October 2 to November 30, 2006, in the amount of \$6 750 at a rate of 1.1403 for the period from December 1 to 29, 2006, and in the amount of \$6 750 at a rate of 1.1396 for the period from January 3 to 31, 2007 in order to manage certain identifiable risks linked to the purchase of products in foreign currency.

16. COMMITMENTS

Héma-Québec entered into long-term leases expiring at various dates over the next 28 years for its operating facilities and administrative offices. The leases include, in some cases, a five-year renewal option.

The lease expenses, for the financial year ended March 31, 2006, stood at \$2 052 (\$1 511 in 2005). The future minimum payments related to these long-term leases are as follows:

2007	1 934
2008	1 896
2009	1 791
2010	1 542
2011	1 527
2012 and subsequent	35 626

17. RELATED PARTY TRANSACTIONS

In addition to related party transactions already disclosed in the financial statements, Héma-Québec is related to all government departments and special funds, as well as all organizations and enterprises controlled directly or indirectly by the Government of Québec or subjected either to joint control or to significant common influence on the part of the Government of Québec. Héma-Québec has not concluded any business transactions with these related partners other than in the normal course of its activities and on customary terms. These transactions are not disclosed separately in the financial statements.

18. HÉMA-QUÉBEC FOUNDATION

On October 26, 1999, the Héma-Québec Foundation was incorporated by letters patent issued under Part III of the Companies Act (R.S.Q., Chapter C-38). The Foundation is a non-profit legal entity whose mission is to provide financial support for the creation and development of innovative projects that will help keep Héma-Québec at the forefront of services and knowledge relating to the supply of blood, stem cells (bone marrow and umbilical cord blood) and human tissues.

The Foundation's Board of Directors is independent. Héma-Québec provides services at no charge to the Foundation that are necessary for the Foundation's operations, as well as access to its premises and some equipment.

19. COMPARATIVE FIGURES

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

HÉMA-QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Héma-Québec were drawn up by Management, which is responsible for their preparation and presentation and include certain amounts that are based on Management's best estimates and judgments. This responsibility includes the choice of 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 assume its responsibilities, Management maintains a system of internal accounting controls that are designed to provide 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 governing it.

Actuaries from the firm of Morneau Sobeco have been appointed as consultants to the Héma-Québec employees' pension plan.

The Board of Directors is required to monitor the manner in which Management carries out its financial reporting responsibilities and has approved these financial statements.

The Auditor General of Québec has audited the financial statements of Héma-Québec, in accordance with Canadian generally accepted auditing standards. His report sets out the nature and extent of the audit and includes his statement of opinion. The Auditor General of Québec can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of this audit.

Guy Lafrenière, CMA
Vice-President, Administration & Finance

Dr. Francine Décary
Chief Executive Officer

Montréal, June 2, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Héma-Québec as at March 31, 2006, and the statement 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 the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Héma-Québec as at March 31, 2006, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the Auditor General Act (R.S.Q., Chapter V-5.01), I declare that, in my opinion, these principles have been applied in the same manner as during the preceding financial year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, June 2, 2006

HYDRO-QUÉBEC
(R.S.Q., c. H-5)

CONSOLIDATED STATEMENTS OF OPERATIONS
years ended December 31
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
REVENUE	<u>10 890</u>	<u>10 399</u>
EXPENDITURE		
Operations	2 294	2 216
Electricity and fuel purchases	1 485	1 465
Depreciation and amortization (Note 4)	2 040	1 870
Taxes (Note 5)	<u>602</u>	<u>609</u>
	<u>6 421</u>	<u>6 160</u>
OPERATING INCOME	4 469	4 239
Financial expenses (Note 6)	<u>2 214</u>	<u>2 111</u>
Income from continuing operations before non-controlling interest	2 255	2 128
Non controlling interest	<u>6</u>	<u>3</u>
Income from continuing operations	2 249	2 125
Discontinued operations (Note 7)	<u>3</u>	<u>310</u>
NET INCOME	<u><u>2 252</u></u>	<u><u>2 435</u></u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
years ended December 31,
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
BALANCE AT BEGINNING OF YEAR	11 949	10 864
Net income	<u>2 252</u>	<u>2 435</u>
	14 201	13 299
Dividends declared (Note 20)	<u>1 126</u>	<u>1 350</u>
BALANCE AT END OF YEAR	<u><u>13 075</u></u>	<u><u>11 949</u></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)

	<u>2005</u>	<u>2004</u>
ASSETS		
Property, plant and equipment (Note 8)	<u>50 588</u>	<u>51 425</u>
Current assets		
Cash and cash equivalents	16	97
Investments	322	72
Accounts receivable	1 764	1 943
Swaps and sinking funds (Note 10)	685	43
Materials, fuel and supplies	343	328
Assets held for sale (Note 7)	<u>145</u>	<u> </u>
	<u>3 275</u>	<u>2 483</u>
Other long-term assets		
Investments (Note 9)	221	252
Swaps and sinking funds (Note 10)	1 749	1 671
Goodwill (Note 11)	10	79
Intangible assets (Note 12)	639	732
Other assets (Note 13)	1 784	1 476
Assets held for sale (Note 7)	<u>2 166</u>	<u> </u>
	<u>6 569</u>	<u>4 210</u>
	<u>60 432</u>	<u>58 118</u>

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS (cont'd)
as at December 31
(in millions of dollars)

	2005	2004
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 14)	31 279	32 567
Current liabilities		
Borrowings	20	53
Accounts payable and accrued liabilities	1 929	1 832
Dividends payable (Note 20)	1 126	1 350
Accrued interest	927	975
Current portion of long-term debt (Note 14)	3 148	1 950
Liabilities related to assets held for sale (Note 7)	172	
	7 322	6 160
Asset retirement obligations (Note 15)	282	264
Other long-term liabilities (Note 16)	2 548	2 361
Long-term liabilities related to assets held for sale (Note 7)	1 213	
Perpetual debt (Note 17)	379	391
Non-controlling interest	33	155
SHAREHOLDER'S EQUITY (Note 20)		
Share capital	4 374	4 374
Retained earnings	13 075	11 949
Translation adjustments	(73)	(103)
	17 376	16 220
	60 432	58 118

COMMITMENTS AND CONTINGENCIES (Note 23)

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

Norman E. Hébert jr.
Director and Member 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)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Income from continuing operations	2 249	2 125
Non-cash items		
Depreciation and amortization		
Property, plant and equipment	1 688	1 619
Intangible assets	114	106
Regulatory assets	51	50
Deferred charges	16	24
Discounts and other deferred credits related to long-term debt	(200)	(225)
Other	237	220
Change in non-cash working capital items (Note 21)	<u>268</u>	<u>4</u>
	<u>4 423</u>	<u>3 923</u>
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets	(3 282)	(3 072)
Long-term investments	9	113
Disposal of investments, net of divested cash and cash equivalents (Note 7)		894
Net change in short-term investments	(251)	159
Other	<u>(170)</u>	<u>(64)</u>
	<u>(3 694)</u>	<u>(1 970)</u>
FINANCING ACTIVITIES		
Issuance of long-term debt	3 855	1 916
Repayment of long-term debt at maturity and sinking fund redemption	(1 955)	(1 802)
Prepayment of long-term debt	(757)	(738)
Inflows resulting from credit risk management	315	110
Outflows resulting from credit risk management	(950)	(555)
Net change in short-term borrowings	(24)	(3)
Dividends paid	(1 350)	(965)
Other	<u>(1)</u>	<u>78</u>
	<u>(867)</u>	<u>(1 959)</u>
CHANGE IN FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>(2)</u>	<u>(5)</u>
Cash flows from continuing operations	(140)	(11)
Cash flows from discontinued operations (Note 7)	<u>135</u>	<u>(86)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5)	(97)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>97</u>	<u>194</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>92</u></u>	<u><u>97</u></u>

HYDRO-QUÉBEC

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont'd)
years ended December 31
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
CASH AND CASH EQUIVALENTS		
Continuing operations	16	97
Discontinued operations	<u>76</u>	<u> </u>
	<u>92</u>	<u>97</u>

SUPPLEMENTARY CASH FLOW INFORMATION (Note 21)

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

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

years ended December 31, 2005 and 2004

(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 accounting procedures and practices that are generally accepted by the Régie de l’énergie (the “Régie”). Given that these procedures and practices are taken into account in the consolidated financial statements, the timing of the recognition of certain costs in consolidated operations is modified, resulting in the recognition of regulatory assets.

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. Consequently, the Corporation’s electricity transmission and distribution activities in Québec are said to be regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. Moreover, this Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a fair return on the rate base.

The Régie and the Corporation both belong to the government of Québec reporting entity. However, the Régie is an independent, quasi-judicial economic regulatory body 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-2002-95, handed down by the Régie in April 2002. In this decision, the Régie granted a return of 9.72% on the rate base, assuming a capital structure with 30% shareholder’s equity.

Distribution

The Corporation’s electricity rates were determined in decisions D-2004-57 and D-2005-48, in which the Régie granted across-the-board rate increases of 1.41% and 1.2%, effective April 1, 2004, and April 1, 2005, respectively. The return on the rate base granted by the Régie to the Distributor and set at 7.99% in 2004 increased to 8.4% in 2005, assuming a capital structure with 35% shareholder’s equity.

International activities

A substantial portion of Hydro-Québec International’s revenue is derived from activities for which rates are regulated according to different economic models by the regulatory bodies in the countries where the activities are carried on.

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.

Hydro-Québec also 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 at equity value 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.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Consolidation (cont'd)**

The operations and cash flows of Hydro-Québec International's holdings are consolidated with a one-quarter lag. The financial position disclosed in Hydro-Québec's consolidated balance sheet for such holdings is as at September 30. If significant transactions or events occur during the fourth quarter, they are reflected in Hydro-Québec's consolidated financial statements for its fiscal year.

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, required disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenditure recorded for the years in question. The estimates relate to unbilled electricity deliveries, the useful life of property, plant and equipment, goodwill, asset retirement obligations and employee future benefits, among other things. Actual results could differ from those estimates.

Revenue

Revenue is recognized when electricity is delivered or services are rendered. Revenue from sales of electricity in Québec is recorded on the basis of cyclical billings and also includes revenue accrued in respect of 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 generally 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 such sales are made in accordance with Accounting Guideline 13 of the Canadian Institute of Chartered Accountants (CICA) Handbook, Hedging Relationships.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**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 long-term debt of the Corporation 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 statement of operations.

The cost of property, plant and equipment under construction is transferred to property, plant and equipment in service when construction is completed and the facilities are commissioned.

Property, plant and equipment are depreciated over their useful lives, primarily using the sinking fund method, at a rate of 3%. Under the Hydro-Québec Act, the depreciation period is 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 30 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 depreciated 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.

Impairment of long-lived assets

Hydro-Québec reviews the carrying value 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 value of the property and assets. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash on hand and liquid short-term investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of three to 12 months are disclosed separately under Current assets in the balance sheet.

Short-term investments are recorded at the lower of unamortized cost and fair value.

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.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Discounts and other deferred credits related to long-term debt**

Discounts and other deferred credits related to long-term debt are deferred and amortized over the terms of the loans on a straight-line basis.

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 post-retirement benefits as at January 1, 1999, are amortized over periods not exceeding employees' average remaining years of service, which totaled 13 years as at January 1, 2005 (13 years as at January 1, 2004), using the straight-line method.
- Amortization of actuarial gains or losses is charged to 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 employees' expected 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 their fair value.
- The value of the benefit resulting from the difference, for the year, between contributions actually paid by employees and their average contributions projected over the employees' expected average remaining years of service is applied against the service cost as contributions deemed paid. This amount is amortized using the method for amortizing actuarial gains and losses.

Goodwill and intangible assets

The excess of the cost of investments in subsidiaries and joint ventures over the proportionate share of the fair value of net assets acquired is recorded as goodwill. Intangible assets are recorded at cost.

Goodwill and intangible assets with indefinite useful lives are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment in value. The excess of the carrying amount over the fair value is recorded in the statement of operations for the period in which the impairment is determined.

Intangible assets with finite useful lives are amortized over their useful lives. The amortization methods and periods used for these assets are as follows:

Software, licences and patents	straight-line and sinking fund at 3%	3 to 20 years
Rights	sinking fund at 3%	40 years
Environmental studies	sinking fund at 3%	5 years

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Sinking funds**

Sinking funds are made up of Hydro-Québec debentures, Government of Canada bonds, or bonds issued or guaranteed by the Québec government. The Corporation's debentures are deducted from long-term debt, while the other securities are presented under Swaps and sinking funds.

Sinking fund securities are carried at unamortized cost. The difference between the cost and the par value at maturity is amortized over the remaining term of the security.

Derivative instruments

As part of 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 raw material prices. In the case of hedging operations, the Corporation formally documents all relationships between hedging instruments and hedged items. This process involves associating all derivative instruments with specific assets and liabilities on the balance sheet, or with forecast or likely transactions. The Corporation also formally measures the effectiveness of hedging relationships at 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 U.S.-dollar sales and long-term debt

- 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 and sinking funds, while credit balances are presented as Long-term debt. Gains or losses on currency swaps related to payments on long-term debt are included in the statement of operations under Financial expenses, while gains or losses on currency swaps related to sales in U.S. dollars are deferred to maturity and recognized in the statement of operations under Financial expenses in the year in which 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 are 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 as the hedged item.
- Interest rate risk – The Corporation uses options, 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 charged to operations in the same period 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 energy or aluminium prices are accounted for at cost, and the related gains or losses are deferred and charged to operations on a basis consistent with the recognition of gains and losses from the underlying reverse risk position.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (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. Should the hedged item cease to exist, the gains or losses previously deferred are immediately charged to operations.

For derivative instruments to which hedge accounting cannot be applied, realized and unrealized changes in fair value are charged to 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 available 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.

Asset retirement obligations

The Corporation accounts for asset retirement obligations in the period in which these legal obligations are incurred when a reasonable estimate of their fair value can be made. The corresponding costs of asset retirement are added to the carrying amount of the related asset and are amortized over its useful life. In subsequent fiscal years, any change due to the passage of time is charged to operating expenses for the current year (accretion expense) and the corresponding amount is added to the carrying value of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying value of the liability under asset retirement obligations, and the corresponding retirement cost adjustment is accounted for as part of the carrying amount of the related asset.

The cash flows required to settle obligations are estimated on the basis of studies that use various assumptions concerning the methods and timing to be adopted for the retirement of the property, plant and equipment. 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.

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 TO ACCOUNTING POLICIES**Recent changes****2005***Investment companies*

On January 1, 2005, Hydro-Québec prospectively adopted the recommendations in CICA Accounting Guideline 18, Investment Companies. Under this Guideline, 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 not meeting the criteria will be required to comply with the requirements for consolidation or for accounting 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. They were previously accounted for at cost. The adoption of these recommendations did not have a significant impact on the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

2. CHANGES TO ACCOUNTING POLICIES (cont'd)**Recent changes (cont'd)****2005** (cont'd)*Consolidation of variable interest entities*

On January 1, 2005, Hydro-Québec retroactively applied the recommendations in CICA Accounting Guideline 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) over which control is exercised other than through voting rights. 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 did not have a significant impact on the consolidated financial statements.

Determining whether an arrangement contains a lease

On January 1, 2005, Hydro-Québec adopted the recommendations in EIC-150 released by the CICA's Emerging Issues Committee, entitled Determining Whether an Arrangement Contains a Lease. This 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. The provisions in the abstract apply to arrangements agreed to, committed to, modified or acquired in a business combination, beginning January 1, 2005. The adoption of these recommendations did not have a 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 19, Disclosures by Entities Subject to Rate Regulation. The Guideline recommends that the existence and nature of all forms of rate regulation, as well as their effects on the consolidated financial statements, should be disclosed in the notes to the consolidated financial statements.

2004*Hedging relationships*

On January 1, 2004, Hydro-Québec prospectively adopted the recommendations of CICA Accounting Guideline 13, Hedging Relationships. This Guideline establishes the conditions for applying hedge accounting. It deals in detail with the identification, designation, documentation and effectiveness of hedging relationships, as well as the discontinuance of hedge accounting. Hedge accounting is applied to derivative instruments used in risk management that conform to hedge accounting eligibility requirements, as described in Note 1. Changes in the fair value of derivative instruments that do not comply with these requirements are charged to operations.

As a result of the adoption of the Guideline, hedging relationships that were no longer eligible for hedge accounting were recorded in accordance with the transitional provisions. The difference between the carrying amount and the fair value of a derivative instrument used in these hedging relationships was deferred and is recognized in the statement of operations in the same period as the corresponding gains, losses, revenue or expenditure related to the original hedged item. Accordingly, for hedging relationships canceled as at January 1, 2004, the recognition in the balance sheet of derivative instruments at fair value led to the recording of a deferred loss of approximately \$65 million.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

2. CHANGES TO ACCOUNTING POLICIES (cont'd)**Recent changes (cont'd)****2004** (cont'd)*Impairment of long-lived assets*

On January 1, 2004, Hydro-Québec prospectively adopted the recommendations of CICA Handbook Section 3063, Impairment of Long-Lived Assets. This section establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and further states that a long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The test for recoverability is based on a comparison between the carrying amount of the asset and the expected undiscounted net cash flows which are directly associated with the asset and may result from its use or eventual disposal. If the expected undiscounted net cash flows are less than the carrying amount, an impairment loss corresponding to the amount by which the carrying amount exceeds the fair value is recognized, and the fair value then becomes the new cost base of the asset. Fair value is based on discounted future cash flows if market prices are not available. The adoption of these standards did not have any impact on the consolidated financial statements.

Asset retirement obligations

On January 1, 2004, Hydro-Québec adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This standard requires the recognition and measurement of liabilities for legal obligations associated with the retirement of property, plant and equipment. The liability associated with an asset retirement obligation is measured initially at its fair value in the period in which the obligation is incurred, if a reasonable estimate of fair value can be made. A corresponding retirement cost is added to the carrying amount of the related asset and is amortized over its useful life. In subsequent periods, the liability is adjusted to reflect any changes due to the passage of time and to revisions made to the timing of the asset retirement or to the amount of undiscounted cash flows as compared to the original estimate. In accordance with the standard, Hydro-Québec applied these changes retroactively and the figures for the previous year were restated.

The adoption of this standard did not significantly affect net income for 2004. Property, plant and equipment and asset retirement obligations as at December 31, 2004, increased by \$43 million and \$59 million, respectively.

Employee future benefits

On June 30, 2004, Hydro-Québec adopted the changes to CICA Handbook Section 3461, Employee Future Benefits, concerning the disclosure of supplementary information intended to help the users of financial statements gain a better understanding of companies' obligations with respect to employee future benefits.

Generally accepted accounting principles and general standards of financial statement presentation

On January 1, 2004, Hydro-Québec adopted the recommendations of CICA Handbook Sections 1100 and 1400, respectively Generally Accepted Accounting Principles and General Standards of Financial Statement Presentation. Section 1100 describes what constitutes GAAP and the sources thereof. It also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, in cases where a matter is not dealt with explicitly in the primary sources of GAAP, thus establishing a new Canadian GAAP hierarchy. Section 1400 provides general instructions on financial statement presentation, and specifies what constitutes fair presentation in accordance with GAAP. The adoption of these standards did not have any impact on the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

2. CHANGES TO ACCOUNTING POLICIES (cont'd)**Future changes***Non-monetary transactions*

The CICA has released 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 should be measured at its fair value where the criterion of “commercial substance” is met. The new provisions apply to all non-monetary transactions initiated in periods beginning on or after January 1, 2006. The adoption of the recommendations in this new Section is not expected to have any significant impact on the consolidated financial statements.

Financial instruments, hedges and comprehensive income

In 2005, the CICA released Handbook sections 3855, 3865 and 1530, respectively entitled Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.

Section 3855 specifies when a financial instrument should 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 previously was included in Accounting Guideline 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 presentation and disclosure of comprehensive income. Comprehensive income for a reporting period includes, in addition to net income, the entire change in net assets attributable to transactions and other events from non-owner sources. Comprehensive income and its components will have to be presented in a financial statement with the same prominence as the other financial statements.

These sections will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. The Corporation is currently examining the impact on its consolidated financial statements of applying these new standards.

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following information describes the impacts on the consolidated financial statements of accounting practices adopted by the Corporation in accordance with decisions handed down by the Régie with respect to regulated activities.

Regulatory assets

Regulatory assets refer to costs incurred during the year or the preceding years that the Corporation expects to recover from customers through the rate-setting process. The following table presents the net carrying amounts of these assets as at December 31:

	<u>Expected years of recovery</u>	<u>2005</u>	<u>2004</u>
Net costs related to retirement of property, plant and equipment and intangible assets	2006 - 2015	258	239
Costs related to the Energy Efficiency Plan	2006 - 2010	131	51
Costs related to the rescission of dual-energy Rate BT	2006 - 2011	76	21
Costs related to a major discontinued project	2006 - 2007	20	
Cost variance related to electricity purchases in excess of heritage pool	Conditions to be determined by the Régie	13	
		<u>498</u>	<u>311</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**Regulatory assets (cont'd)***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, net of accumulated depreciation, and the associated cost of dismantlement, net of salvage value in the case of assets that are not replaced, are charged to a separate account and depreciated over a maximum period of 10 years, using the sinking fund method at a rate of 3%. 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 2005 would have been reduced by \$19 million.

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 five years on a straight-line basis. This period begins in the year after the costs were recorded. For costs charged to this account, the financial expenses are capitalized at the authorized rate of return 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 is authorized by the Régie in decisions D-2002-25 and D-2002-288. Were these activities not regulated, the costs of implementing the plan would be charged to operations in the year in which they are incurred, and net income for 2005 would have been reduced by \$80 million.

Costs related to the rescission of dual-energy Rate BT

The costs incurred in relation to the rescission of dual-energy Rate BT are charged to a separate account and will be amortized on a straight-line basis over five years starting April 1, 2006. These costs mainly include the deficit resulting from the variance between the supply cost recognized by the Régie and energy prices in effect, multiplied by the quantity of electricity delivered to customers at Rate BT, between January 1, 2004, and March 31, 2006. For costs charged to this account, the financial expenses are capitalized at the authorized rate of return on the rate base until amortization begins. This accounting practice was authorized by the Régie in decisions D-2004-47 and D-2004-170, which relate to the Corporation's power distribution activities. Were these activities not regulated, the related costs would be charged to operations in the year in which they are incurred, and net income for 2005 would have been reduced by \$55 million.

Costs related to a major discontinued project

A power transmission system project was discontinued in 2005. The costs deemed to be unrecoverable 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 related costs would be charged to operations for the year, and net income for 2005 would have been reduced by \$20 million.

Cost variance related to electricity purchases in excess of heritage pool

Starting January 1, 2005, volume and price variances between the actual costs of electricity purchases in excess of the heritage pool and the costs forecast in the rate cases are accounted for in a separate account. For variances charged to this account, the financial expenses are capitalized at the authorized rate of return on the rate base until they are recognized in the statement of operations. The Régie has not yet determined how the account balance should be treated. The Régie authorized this accounting practice in decisions D-2005-34 and D-2005-132, which relate to the Corporation's power distribution activities. Were these activities not regulated, the related variances would be charged to operations in the year in which they are recognized, and net income for 2005 would have been reduced by \$13 million.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
 (in millions of dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**Regulatory assets (cont'd)***Risks and uncertainties*

The risks and uncertainties related to the above regulatory assets are subject to periodic monitoring and assessment. When the Corporation considers that the value of these regulatory assets is no longer likely to be recovered by way of future rate adjustments, the carrying amount of these assets is charged to operations in the year in which this judgment is made.

Other regulatory practices

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the government for the 1998 ice storm was applied against the cost of new property, plant and equipment constructed; it is amortized over the remaining lives 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. If GAAP were followed, the compensation would be amortized over the useful lives 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 and intangible assets in progress 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, which would not be the case if activities were not regulated.

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. If GAAP were followed, these costs would be charged to operations.

4. DEPRECIATION AND AMORTIZATION

	2005	2004
Depreciation and amortization		
Property, plant and equipment	1 688	1 619
Intangible assets	114	106
Regulatory assets	51	50
Write-off of projects	135	41
Other	52	54
	<u>2 040</u>	<u>1 870</u>

5. TAXES

	2005	2004
Capital tax	330	324
Tax on public services ^a	229	
Tax on gross revenue		249
Municipal, school and other taxes	43	36
	<u>602</u>	<u>609</u>

a) Replaces the tax on gross revenue.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

6. FINANCIAL EXPENSES

	2005	2004
Interest		
Interest on debt securities	2 303	2 374
Amortization of discounts and borrowing expenses	28	34
	<u>2 331</u>	<u>2 408</u>
Exchange gain	(1)	(218)
Loan guarantee fees ^a	<u>156</u>	<u>162</u>
	<u>155</u>	<u>(56)</u>
Less		
Capitalized financial expenses	249	226
Net investment income	<u>23</u>	<u>15</u>
	<u>272</u>	<u>241</u>
	<u><u>2 214</u></u>	<u><u>2 111</u></u>

a) Guarantee fees paid to the shareholder.

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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 on disposal of \$48 million. At the time of disposal, these assets included property, plant and equipment totaling \$42 million. HydroSolution is part of the Distribution segment for the purpose of presenting segmented information.

In the third quarter of 2005, Hydro-Québec presented the assets and liabilities of its stake in Cross-Sound Cable Company, LLC, which is classified under Corporate and Other Activities for the purpose of presenting segmented information, as being held for sale. On November 8, 2005, it concluded the sale of this subsidiary for US\$160 million, subject to certain conditions. The transaction provides for the disposal of the units held and repayment of the loan granted by Hydro-Québec to Cross-Sound Cable Company, LLC.

Hydro-Québec also adopted a plan to sell its integrated foreign interests, which are classified under Corporate and Other Activities for the purpose of presenting segmented information. Consequently, the related assets and liabilities have been classified as being held for sale.

On June 30, 2004, Hydro-Québec sold its interest in Noverco Inc., for a cash consideration of \$900 million, resulting in a gain on disposal of \$265 million.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

The following table presents operating results and cash flows from interests presented as discontinued operations:

	<u>2005</u>	<u>2004</u>
Operations		
Revenue	<u>344</u>	<u>1 135</u>
(Loss) income before gains on disposal	(45)	45
Gains on disposal	<u>48</u>	<u>265</u>
Income from discontinued operations	<u><u>3</u></u>	<u><u>310</u></u>
Cash flows		
Operating activities	105	226
Investing activities	44	(234)
Financing activities	(22)	(85)
Change in foreign exchange on cash and cash equivalents	<u>8</u>	<u>7</u>
Cash flows from discontinued operations	<u><u>135</u></u>	<u><u>(86)</u></u>

The assets and liabilities of operations sold, as at the disposal date, were as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents		6
Other current assets		155
Long-term assets	42	1 491
Current liabilities		137
Long-term liabilities		<u>1 169</u>
	<u>42</u>	<u>346</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

8. PROPERTY, PLANT AND EQUIPMENT

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	2 042	1 120	72	994
	<u>21 553</u>	<u>6 809</u>	<u>599</u>	<u>15 343</u>
Distribution				
Substations and lines	10 463	3 620	219	7 062
Other	1 923	1 118	285	1 090
	<u>12 386</u>	<u>4 738</u>	<u>504</u>	<u>8 152</u>
Construction	<u>51</u>	<u>34</u>	<u>2</u>	<u>19</u>
Corporate and Other Activities	<u>1 261</u>	<u>778</u>	<u>34</u>	<u>517</u>
	<u>67 297</u>	<u>21 497</u>	<u>4 788</u>	<u>50 588</u>
2004				
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	27 523	6 737	3 235	24 021
Thermal, including nuclear	2 515	1 479	74	1 110
Other	806	326	21	501
	<u>30 844</u>	<u>8 542</u>	<u>3 330</u>	<u>25 632</u>
Transmission				
Substations and lines	19 031	5 311	510	14 230
Other	2 183	1 241	29	971
	<u>21 214</u>	<u>6 552</u>	<u>539</u>	<u>15 201</u>
Distribution				
Substations and lines	10 104	3 310	176	6 970
Other	2 047	1 218	184	1 013
	<u>12 151</u>	<u>4 528</u>	<u>360</u>	<u>7 983</u>
Construction	<u>63</u>	<u>48</u>	<u>9</u>	<u>24</u>
Corporate and Other Activities	<u>3 531</u>	<u>1 010</u>	<u>64</u>	<u>2 585</u>
	<u>67 803</u>	<u>20 680</u>	<u>4 302</u>	<u>51 425</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

8. PROPERTY, PLANT AND EQUIPMENT (cont'd)

As at December 31, 2005, the Corporation had cumulative costs related to suspended draft-design studies totaling \$37 million (\$219 million as at December 31, 2004). 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

	2005	2004
At cost		
Churchill Falls (Labrador) Corporation Limited		
Bonds ^a (Note 23)	54	55
Other	63	72
	117	127
At fair value		
Venture capital ^b (at cost in 2004)	49	72
	49	72
At equity		
Churchill Falls (Labrador) Corporation Limited (Note 23)	60	53
CITEQ inc.	(5)	
	55	53
	221	252

a) These bonds are secured by a general mortgage bearing interest at 7.5%, due in 2010, par value of \$59 million in 2005 (\$60 million in 2004).

b) The fair value of venture capital was \$67 million as at December 31, 2004. Both the gross and net unrealized losses on investments held by the venture capital company amounted to \$26 million as at December 31, 2005. Net gains of \$6 million were realized in 2005.

10. SWAPS AND SINKING FUNDS

	2005	2004
Swaps	2 434	1 710
Sinking funds	4	4
	2 434	1 714
Less		
Current portion	685	43
	1 749	1 671

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

11. GOODWILL

The changes in the carrying amount of goodwill by segment are as follows:

	2005		
	Generation	Corporate and Other Activities	Total
Balance at beginning of year	10	69	79
Change in foreign exchange		4	4
Write-off		(1)	(1)
Transfers to assets held for sale		(72)	(72)
Balance at end of year	10		10

	2004		
	Generation	Corporate and Other Activities	Total
Balance at beginning of year	10	288	298
Change in foreign exchange		1	1
Disposal of interest		(220)	(220)
Balance at end of year	10	69	79

12. INTANGIBLE ASSETS

	2005		
	Cost	Accumulated Depreciation	Net carrying value
Subject to amortization			
Software, licences and patents	809	584	225
Rights	110	37	73
Environmental studies	126	109	17
	1 045	730	315
Not subject to amortization			
Servitudes			324
	1 045	730	639

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

12. INTANGIBLE ASSETS (cont'd)

			2004 Net carrying value
	Cost	Accumulated Depreciation	
Subject to amortization			
Software, licences and patents	753	493	260
Rights	111	35	76
Environmental studies	121	102	19
	985	630	355
Not subject to amortization			
Servitudes			377
	985	630	732

13. OTHER ASSETS

	2005	2004
Accrued benefit assets (Note 22)	1 020	865
Regulatory assets (Note 3)	498	311
Deferred charges	96	120
Government reimbursement for the 1998 ice storm ^a	138	152
Funds in trust for nuclear waste management ^b	32	28
	1 784	1 476

- a) Representing installments of \$6 million per quarter until January 15, 2014, and a final installment of \$1 million on April 15, 2014. These installments include interest at the annual rate of 7.2%.
- b) On November 15, 2002, the Act Respecting the Long-Term Management of Nuclear Fuel Waste came into force. This legislation calls for nuclear energy companies that are owners of such waste in Canada to form a waste management organization as a separate legal entity and to set up a trust with a financial institution in order to finance the implementation of the nuclear fuel waste management proposal that will be adopted by the Government of Canada. In order to fulfill the financial responsibilities incumbent on nuclear fuel waste owners, the Corporation deposited an initial amount of \$20 million in a trust within 10 days of the date this Act came into force. It is required to deposit an additional \$4 million per year in the same trust until the waste management organization determines the amount to be paid by each nuclear plant owner. The Corporation has been making the required payments since 2002. The sums are invested in short-term marketable securities, and interest accumulated on trust assets is returned to the trust.

14. LONG-TERM DEBT**Composition and maturities**

Debentures, other long-term debt and swaps representing financial liabilities, translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, are summarized in the following table. These amounts are presented by year of maturity, considering sinking funds.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

14. LONG-TERM DEBT (cont'd)**Composition and maturities** (cont'd)

Maturity	Debt of the Corporation					Sub- sidiaries and joint ventures	2005	2004
	Canadian dollars	U.S. dollars	Other currencies	Sinking Funds	Total		Total	Total
2005								1 950
2006	1 139	1 716	286		3 141	7	3 148	3 199
2007	1 179	679	22	(214)	1 666	3	1 669	1 987
2008	86	33	1 167		1 286	3	1 289	1 517
2009	1 998	35	6	(224)	1 815	54	1 869	575
2010	694	30		(62)	662	22	684	
1 to 5 years	5 096	2 493	1 481	(500)	8 570	89	8 659	9 228
6 to 10 years	3 030	2 578	557	(148)	6 017	46	6 063	6 479
11 to 15 years	1 907	484	96	(91)	2 396		2 396	1 375
16 to 20 years	3 057	2 583		(91)	5 549		5 549	7 183
21 to 25 years	67	3 397		(173)	3 291		3 291	2 066
26 to 30 years	5 704	55		(56)	5 703		5 703	2 386
31 to 35 years	1 776			(11)	1 765		1 765	4 562
36 to 40 years	12				12		12	285
41 to 45 years	70				70		70	12
46 to 50 years	28				28		28	82
51 to 55 years	479				479		479	
56 to 60 years	412				412		412	859
Less	21 638 ^a	11 590	2 134	(1 070) ^b	34 292 ^c	135	34 427	34 517
Current portion	1 139	1 716	286		3 141	7	3 148	1 950
	20 499	9 874	1 848	(1 070)	31 151	128	31 279	32 567

a) Includes \$173 million and \$378 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 \$1 223 million, will reach a par value of \$1 333 million at maturity.

b) The sinking funds include a special fund created for the majority of the significant discounted debt. This fund totaled \$407 million as at December 31, 2005 (\$425 million as at December 31, 2004).

c) Includes \$32 014 million in bonds guaranteed by the Québec government as at December 31, 2005 (\$31 349 million as at December 31, 2004).

Allocation 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 other currencies. Also shown are the effects of currency swaps and sinking funds allocated to repay debt, which are presented in the balance sheet under Swaps and sinking funds.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
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14. LONG-TERM DEBT (cont'd)**Allocation of debt by currency at time of issuance and impact of swaps and sinking funds** (cont'd)

	2005			2004
	Long-term debt			
	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date ^a	Swaps and sinking funds	Total
				Total
Debt of the Corporation				
Canadian dollars	20 975	20 975		19 073
U.S. dollars	8 346	11 183	(2 373)	10 295
Other currencies				
Euros	673	1 155	(48)	1 107
Yen	25 600	337	(1)	477
Pounds sterling	240	546	(12)	534
Swiss francs	97	96		96
		2 134	(61)	2 214
		34 292	(2 434)	31 582
Subsidiaries and joint ventures ^b		135		1 221
		34 427	(2 434)	32 803

a) Includes \$1 797 million in financial liabilities composed of currency swaps (\$1 460 million as at December 31, 2004) and \$1 070 million in Hydro-Québec securities held in sinking funds (\$1 042 million as at December 31, 2004).

b) Long-term debt composed of \$135 million in U.S. dollars (\$893 million in U.S. dollars and \$328 million in Unidades de Fomento as at December 31, 2004).

Allocation of debt by currency at time of issuance and at time of repayment

The following table shows the allocation of debt, net of sinking funds, converted into Canadian dollars after taking swaps into account, according to the currency at time of issue and time of repayment.

	2005		2004	
	At time of issuance	At time of repayment	At time of issuance	At time of repayment
Debt of the Corporation				
Canadian dollars	20 975	26 201	19 073	23 208
U.S. dollars	8 810	5 657 ^a	10 295	8 374
Other currencies	2 073		2 214	
	31 858	31 858	31 582	31 582
Debt of the subsidiaries and joint ventures				
U.S. dollars	135	135	893	499
Other currencies			328	722
	135	135	1 221	1 221
	31 993	31 993	32 803	32 803

a) Of this amount, 89.8% was used to hedge sales in U.S. dollars as at December 31, 2005, (73.1% as at December 31, 2004).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
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14. LONG-TERM DEBT (cont'd)**Interest rates**

Hydro-Québec's interest rates presented in the following table take into account nominal interest rates on borrowings, the related discounts and borrowing costs, and the effect of interest rate swaps.

Maturity	2005				2004
	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	4.67	5.98	4.40	5.06	5.87
6 to 10 years	8.56	7.71	11.65	8.58	7.96
11 to 15 years	10.71	8.32	6.40	10.21	8.33
16 to 20 years	10.25	8.82		9.61	10.09
21 to 25 years	6.00	8.79		8.72	8.46
26 to 30 years	6.11			6.11	7.77
31 to 35 years	5.36			5.36	5.99
36 to 40 years	6.52			6.52	6.41
41 to 45 years	6.44			6.44	
46 to 50 years					6.44
51 to 55 years	6.62			6.62	
56 to 60 years					6.62
Weighted average	7.30	8.73	8.40	7.76	7.97

The variable-rate portion of Hydro-Québec's debt amounted to 19.0%, or 20.0% after perpetual debt, as at December 31, 2005 (25.0%, or 25.9% after perpetual debt, as at December 31, 2004). For information purposes, a 1% change in interest rates would change consolidated net income by \$62 million (\$85 million in 2004), not including the impact of derivative instruments used to manage short-term financial risk (Note 18).

Fair value

As at December 31, 2005, the fair value of Hydro-Québec's debt amounted to \$44 977 million (\$44 024 million as at December 31, 2004). Net of sinking funds and after swaps, it totaled \$43 715 million (\$42 504 million as at December 31, 2004).

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, 2005, Hydro-Québec did not foresee any significant debt repayments that could result in the realization of this fair value.

Hydro-Québec has undrawn revolving standby credit facilities, of which US\$1 500 million expires in 2010. Any borrowing under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR).

15. ASSET RETIREMENT OBLIGATIONS

Liabilities arising from asset retirement obligations relate to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life, the removal of irradiated nuclear fuel resulting from its operation and the dismantling of oil tanks and of certain thermal generating stations.

Hydro-Québec has also identified asset retirement obligations relating to thermal generating stations, power transmission lines and substations 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.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
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15. ASSET RETIREMENT OBLIGATIONS (cont'd)

The aggregate carrying value of asset retirement obligations is as follows:

	2005			
	Dismantling of nuclear generating station	Removal of irradiated 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	<u>172</u>	<u>92</u>	<u>18</u>	<u>282</u>

	2004			
	Dismantling of nuclear generating station	Removal of irradiated fuel	Dismantling of other assets	Total
Balance at beginning of year	140	72	22	234
Liabilities incurred	13	3	1	17
Accretion expense	9	7	1	17
Liabilities settled			(4)	(4)
Balance at end of year	<u>162</u>	<u>82</u>	<u>20</u>	<u>264</u>

The carrying value of asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station	Removal of irradiated fuel	Dismantling of other assets
Total undiscounted amount of estimated cash flows required to settle the obligations (in current dollars)	463 ^a	519 ^a	21
Expected timing of payment of the cash flows required to settle the obligations	Between 2012 and 2050 ^a	Between 2012 and 2047 ^a	Between 2006 and 2031
Credit-adjusted risk-free rate at which the estimated cash flows have been discounted (%)	6.4	6.4	6.4

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

15. ASSET RETIREMENT OBLIGATIONS (cont'd)

- a) When Gentilly-2 nuclear generating station was designed, the Corporation planned to operate it for 30 years, until 2013. The Corporation initiated a draft-design study to evaluate whether its useful life could be extended by 25 years through refurbishment. If the refurbishment is not carried out, Management could decide to decommission the nuclear generating station a few years earlier, depending on technical and economic factors. Pending the decision, the consolidated financial statements reflect end-of-life in 2011 for purposes of calculating the depreciation of the station and the related decommissioning costs. Consequently, once the decision is made, the estimated undiscounted cash flows and the expected timing of payment of the cash flows required to settle the obligations could change and thus, asset retirement obligations and decommissioning costs as well as the depreciation expense and accretion expense, as recorded in these 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. As at December 31, 2005, the net carrying value of Gentilly-2 was \$623 million (\$692 million as at December 31, 2004). Based on the key assumptions established, asset retirement obligations relating to the dismantling of the nuclear generating station and the removal of irradiated fuel will total \$911 million and \$1 122 million, respectively, after factoring in a 2% inflation rate. However, the remaining portions of these obligations are scheduled to extend over periods of 45 years and 42 years, respectively.

16. OTHER LONG-TERM LIABILITIES

	2005	2004
Deferred foreign exchange gain	1 454	1 272
Accrued benefit liability (Note 22)	497	452
Accounts payable	126	259
Discounts and other deferred credits related to long-term debt	322	205
Credit risk management	149	173
	<u>2 548</u>	<u>2 361</u>

17. PERPETUAL DEBT

Perpetual notes in the amount of US\$325 million (US\$325 million as at December 31, 2004) bear interest at a rate established semi-annually based on LIBOR. They are guaranteed by the Québec government and are redeemable only at the Corporation's option. No portion was redeemed in 2005. In 2004, a portion amounting to US\$15 million was repurchased on the secondary market and then canceled. Various derivative instruments recorded at fair value are used to mitigate exchange risk.

As at December 31, 2005, the fair value of these notes was \$383 million (\$370 million as at December 31, 2004). As at December 31, 2005, and December 31, 2004, LIBOR for perpetual notes was 4.2% and 2.1%, respectively.

18. FINANCIAL INSTRUMENTS**Derivative instruments**

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. Some of these currency swaps allow for interest rate exchanges 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 \$8 million (positive fair value of \$167 million as at December 31, 2004).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

18. FINANCIAL INSTRUMENTS (cont'd)**Derivative instruments** (cont'd)

The following table presents the notional amounts of these swaps, expressed in Canadian dollars and other currencies.

						2005 ^a	2004 ^a
	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	More than 20 years	Total	Total
Maturity							
Swaps							
Canadian dollars	630	(476)	25	(2 019)	(3 386)	(5 226)	(4 136)
U.S. dollars	(616)	11	(31)	1 640	2 613	3 617	2 191
Other currencies							
Yen	23 600	1 000	1 000			25 600	36 500
Euros	612		61			673	673
Pounds sterling		240				240	240
Swiss francs	97					97	97
Unidades de Fomento (indexed Chilean pesos)							(11)
Forward contracts							
U.S. dollars	477					477	1 774

a) Figures in parentheses represent amounts to be paid.

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 currency risk exposure, it transacted options and currency futures for a cumulative amount of \$731 million, of which \$389 million was in the form of forward purchase contracts and \$342 million in the form of forward sales contracts (\$1 588 million in 2004, of which \$1 161 million was in purchase contracts and \$427 million in sales contracts). To manage interest rate fluctuations, it engaged in options, swaps and forward rate agreements. For information purposes, a 1% variance in interest rates would result in a \$55-million variance in net income (\$50 million in 2004). Finally, Hydro-Québec transacted options, swaps and forward contracts totaling 136 500 tonnes of aluminum (292 275 tonnes of aluminum in 2004) to manage the risk of fluctuations in commodity prices.

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. It transacted electricity swaps for 0.3 TWh (1.3 TWh in 2004) to hedge this risk.

The fair value of these instruments is presented by specific risk in the following table. Of these fair values, (\$99 million) will mature in 2006 and \$20 million will mature in 2007.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
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18. FINANCIAL INSTRUMENTS (cont'd)**Derivative instruments (cont'd)**

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Exchange risk				
Forward exchange contracts and options				
Financial assets		8	15	47
Financial liabilities		(43)	(22)	(101)
		(35)	(7)	(54)
Interest rate risk				
Forward rate agreements, options and swaps				
Financial assets	24	39	5	2
Financial liabilities	(3)	(4)	(10)	(15)
	21	35	(5)	(13)
Risk of changes in energy and commodity prices				
Forward contracts, options and swaps				
Financial assets	16	16	12	12
Financial liabilities	(2)	(95)	(11)	(107)
	14	(79)	1	(95)
	35	(79)	(11)	(162)

Other financial instruments

The carrying amount of investments, accounts receivable, the government reimbursement for the 1998 ice storm, the trust fund for nuclear fuel waste management, short-term borrowings, accounts payable and accrued liabilities, dividends payable and accrued interest approximates their fair value. As at December 31, 2005, the weighted average interest rate on short-term investments was 3.26% (2.26% as at December 31, 2004), whereas it was 2.81% (3.16% as at December 31, 2004) on short-term borrowings.

Credit risk

Derivative instruments include an element of risk since counterparty might not meet its obligations. However, this risk is moderate as Hydro-Québec generally deals with Canadian and international financial institutions with high credit ratings. Credit risk exposure is also reduced by applying a credit policy limiting credit risk concentration and a counterparty credit risk assessment program, as well as by adopting credit limits, where necessary. As at December 31, 2005, no counterparty had defaulted on its obligations toward Hydro-Québec regarding investments and derivatives.

Hydro-Québec is also exposed to credit risk associated with trade receivables. 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)
years ended December 31, 2005 and 2004
(in millions of dollars)

19. 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 include the interests managed by the Hydro-Québec Technologie et développement industriel and Hydro-Québec Production divisions, as well as interests in various foreign joint ventures, primarily through Hydro-Québec International.

	2005	2004
Operations		
Revenue	33	21
Expenditure and financial expenses	130	59
Discontinued operations	10	46
Net (loss) income	<u>(87)</u>	<u>8</u>
Balance sheets		
Current assets	56	44
Long-term assets	295	383
Current liabilities	56	43
Long-term liabilities	114	87
Non-controlling interest		27
Net assets	<u>181</u>	<u>270</u>
Cash flows		
Operating activities	(35)	(45)
Investing activities	(4)	(8)
Financing activities	36	31
Discontinued operations	9	(15)
Net change in cash and cash equivalents	<u>6</u>	<u>(37)</u>

20. 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 fiscal year, they cannot exceed the distributable surplus, equal to 75% of the year's operating income and net investment income, less interest on debt securities and amortization of discounts and borrowing expenses. This calculation is performed using the consolidated financial statements.

However, in respect of a given fiscal year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. The Québec government declares the dividends for a given year within 30 days after the Corporation has sent it the financial data 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.

For 2005, the Québec government declared dividends of \$1 126 million (\$1 350 million in 2004), which is less than the maximum permitted.

The dividends declared are deducted from the retained earnings of the year for which they were declared.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

21. SUPPLEMENTARY CASH FLOW INFORMATION

	2005	2004
Change in non-cash working capital items		
Accounts receivable	35	(176)
Materials, fuel and supplies	(24)	(9)
Accounts payable and accrued liabilities	273	183
Accrued interest	(16)	6
	<u>268</u>	<u>4</u>
Investing activities not affecting cash		
Increase in property, plant and equipment and intangible assets	<u>28</u>	<u>366</u>
Cash and cash equivalents paid during the year		
Interest paid	<u>2 245</u>	<u>2 268</u>

22. EMPLOYEE FUTURE BENEFITS

The Corporation's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on the number of years of service and 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 30, 2004, and the next valuation should be performed no later than December 30, 2007.

The following tables present information concerning the Corporation's employee future benefits plans:

	Pension Plan		Other plans	
	2005	2004	2005	2004
Accrued benefit obligation				
Balance at beginning of year	10 256	8 628	688	591
Current service cost	331	288	31	26
Benefit payments and refunds	(387)	(353)	(39)	(37)
Interest on obligations	616	568	42	39
Actuarial losses	1 109	1 125	115	69
Balance at end of year (Amounts carried forward)	<u>11 925</u>	<u>10 256</u>	<u>837</u>	<u>688</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

22. EMPLOYEE FUTURE BENEFITS (cont'd)

	Pension Plan		Other plans	
	2005	2004	2005	2004
Accrued benefit obligation (cont'd)				
Balance at end of year (Amounts brought forward)	11 925	10 256	837	688
Plan assets at fair value				
Balance at beginning of year	9 982	9 217	49	49
Actual return on plan assets	1 387	1 088	2	2
Employee contributions	38	38		
Current contributions by the Corporation	307	25	9	5
Special contribution by the Corporation	34			
Benefit payments and refunds	(387)	(353)	(9)	(7)
Administrative fees	(30)	(33)		
Balance at end of year	11 331	9 982	51	49
Deficit at end of year	(594)	(274)	(786)	(639)
Unamortized past service costs	295	339		
Unamortized net actuarial loss	2 536	2 169	181	65
Unamortized transitional (asset) obligation	(1 217)	(1 369)	108	122
Accrued benefit asset (liability)	<u>1 020</u>	<u>865</u>	<u>(497)</u>	<u>(452)</u>

Additional disclosures with respect to plan assets

At year end, assets of the Pension Plan at fair value consisted of:

%	2005	2004
Equities	55	55
Bonds	31	31
Real estate investments	5	5
Other	9	9
	<u>100</u>	<u>100</u>

Plan assets include securities issued by the Corporation and certain related companies. These securities are grouped under the following asset classes:

	2005	2004
Pension Plan		
Bonds	763	656
Short-term investments		1
	<u>763</u>	<u>657</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

22. EMPLOYEE FUTURE BENEFITS (cont'd)**Additional disclosures with respect to plan assets (cont'd)**

	2005	2004
Other plans		
Bonds	32	32
Short-term investments	14	11
	<u>46</u>	<u>43</u>

Cash payments

Cash payments made by the Corporation for employee benefit plans consists of the contributions paid to funded plans and benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2005	2004
Contributions by the Corporation		
Pension Plan	341	25
Other funded plans	9	5
Benefit payments - unfunded plans	32	30
Cash payments	<u>382</u>	<u>60</u>

The Corporation and its employees resumed their contributions to the Pension Plan on December 15, 2003. The employee and employer contribution rates are increasing by 1% and 1.8%, respectively, each year to reach a maximum of 5.2% of pensionable earnings. In 2005, contributions amounted to 2% of pensionable earnings for employees and 3.6% for the Corporation (1% and 1.8%, respectively, in 2004). Moreover, after the actuarial valuation for funding purposes dated December 30, 2004, was submitted to the Régie des rentes du Québec, the Corporation made an additional contribution of \$254 million in 2005 to cover current service costs and a special contribution of \$34 million to cover the actuarial deficit.

Elements of accrued benefit cost recognized in the year

	Pension Plan		Other plans	
	2005	2004	2005	2004
Current service cost, ^a net of employee Contributions	293	227	31	26
Administrative fees ^b	30	33		
Interest on obligations	616	568	42	39
Actual return on plan assets	(1 387)	(1 088)	(2)	(2)
Actuarial losses	1 109	1 125	115	69
Cost before adjustments required to recognize the long-term nature of employee future benefits (Amounts carried forward)	<u>661</u>	<u>865</u>	<u>186</u>	<u>132</u>

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

22. EMPLOYEE FUTURE BENEFITS (cont'd)**Elements of accrued benefit cost recognized in the year**

	Pension Plan		Other plans	
	2005	2004	2005	2004
Cost before adjustments required to recognize the long-term nature of employee future benefits (Amounts brought forward)	661	865	186	132
Difference between actual and expected return on assets	703	364		
Difference between actuarial losses on accrued benefit obligations and actuarial losses recognized	(1 070)	(1 125)	(114)	(71)
Difference between adjustments for plan amendments and amortization of past service costs	44	52		
Amortization of transitional (asset) obligation	(152)	(152)	14	14
	(475)	(861)	(100)	(57)
Cost recognized in the year	186	4	86	75

- a) For the long-term disability salary insurance plan, current service cost corresponds to the cost of new disability cases for the year.
- b) Administrative fees chargeable to the Pension Plan are fully billed by the Corporation.

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	
	2005	2004	2005	2004
Accrued benefit obligations				
Rate at end of year				
Discount rate	5.30	6.03	5.30	6.03
Salary escalation rate ^a	3.89	3.87		
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	6.03	6.67	6.03	6.67
Expected long-term rate of return on plan assets	6.52	6.86	3.68	3.53
Salary escalation rate ^a	3.87	3.41		

- a) This rate takes into account salary increases and promotion opportunities while in service.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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22. EMPLOYEE FUTURE BENEFITS (cont'd)**Significant actuarial assumptions (cont'd)**

As at December 31, 2005, healthcare costs were based on an annual growth rate of 8.60% in 2006. Thereafter, based on the assumption used, this rate will gradually decrease until it ultimately reaches 4.30% in 2016. As 1% change in this annual growth rate would have the following impact on operations for 2005:

	<u>1% increase</u>	<u>1% decrease</u>
Impact on current service cost and interest cost on accrued benefit obligations for the year	5	(4)
Impact on accrued benefit obligations at end of year	53	(43)

23. 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, 2005, the Corporation was committed under 98 contracts to purchase electricity from other power producers, for an installed capacity of about 3 697 MW. It expects to purchase approximately 13 TWh of energy annually over the initial terms of these contracts, which extend through 2033. The majority of these contracts include renewal clauses.

The Corporation expects to make the following payments on its electricity purchase contracts over the next five years:

2006	732
2007	1 116
2008	1 130
2009	1 159
2010	1 231

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, 2005, the potential maximum amount that Hydro-Québec could have had to pay under letters of credit or guarantees totaled \$419 million. Of this amount, \$319 million relates to the purchase of energy, and a liability in the amount of \$25 million has been recorded accordingly. Some guarantees expire between 2006 and 2019, while others do not have maturity dates.

In accordance with the terms and conditions of bond issues made 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 the bonds in question.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2005 and 2004
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23. COMMITMENTS AND CONTINGENCIES (cont'd)**Guarantees (cont'd)**

Under the agreement with CF(L)Co, the Corporation could be required to provide additional funding if CF(L)Co were unable to pay its expenses and service its debt. The 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.

In 2004, Hydro-Québec provided guarantees to the purchaser of its interest in Noverco Inc. concerning all its representations in the sales agreement for a two-year period ending on June 30, 2006, for which no liability was recorded. It further guarantees additional tax liabilities until the expiry of a 60-day period after the date on which the authorities will no longer be authorized to determine the tax assessment.

Investments

The Corporation expects to invest approximately \$4 billion in property, plant and equipment and intangible assets in 2006.

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 when they meet 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.

24. RELATED PARTY TRANSACTIONS

Hydro-Québec enters into various business transactions with the Québec government and its organizations, as well as with other government corporations in the normal course of business. These transactions are measured at the exchange amount.

Other transactions with the Québec government are described elsewhere in the consolidated financial statements.

25. 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. In 2005, the activities of Hydro-Québec International and of Hydro-Québec Pétrole et gaz were grouped under Corporate and Other Activities, and the corresponding information for the preceding year was reclassified accordingly.

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.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
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25. SEGMENTED INFORMATION (cont'd)

Transmission: Hydro-Québec TransÉnergie develops and operates the Corporation's electric power transmission system in Québec and the related telecommunications system.

Distribution: Hydro-Québec Distribution operates and develops 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 heading includes corporate activities, mainly financial services, human resources, corporate affairs, and the activities of the Shared Services Centre (such as procurement, computer services and corporate telecommunications). It also covers the activities managed by Hydro-Québec Technologie et développement industriel, that is, research, technical support, industrial development of Hydro-Québec technologies, and capital venturing. The activities of Hydro-Québec International and of Hydro-Québec Pétrole et gaz are also included.

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.

The following tables contain information related to operations and assets by segment as well as geographic information:

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

25. SEGMENTED INFORMATION (cont'd)**Segments**

							2005
	Generation	Transmis- sion	Distribu- tion	Construc- tion	Corporate and Other Activities	Inter- segment elimina- tions	Total
Revenue							
External customers	1 708	28	9 181	6	16	(49)	10 890
Intersegment	4 532	2 550	55	2 053	921	(10 111)	
Depreciation and amortization	880	575	489	5	91		2 040
Financial expenses	1 050	727	384		52	1	2 214
Income (loss) from continuing operations	1 873	369	172	5	(162)	(8)	2 249
Discontinued operations			58		(55)		3
Net income (loss)	1 873	369	230	5	(217)	(8)	2 252
Investments in property, plant and equipment and intangible assets							
Affecting cash	1 780	793	645	6	58		3 282
Not affecting cash	8	12	8				28
Total assets	27 482	16 329	10 556	242	6 055	(232)	60 432

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2005 and 2004
(in millions of dollars)

25. SEGMENTED INFORMATION (cont'd)

Segments (cont'd)

							2004
	Generation	Transmis- sion	Distribu- tion	Construc- tion	Corporate and Other Activities	Inter- segment elimina- tions	Total
Revenue							
External customers	1 293	18	8 987	9	93	(1)	10 399
Intersegments	4 607	2 529	55	1 960	890	(10 041)	
Depreciation and amortization	723	587	447	5	108		1 870
Financial expenses	1 016	679	345		70	1	2 111
Income (loss) from continuing operations	1 661	409	275	4	(171)	(53)	2 125
Discontinued operations			12		298		310
Net income (loss)	1 661	409	287	4	127	(53)	2 435
Investments in property, plant and equipment and intangible assets							
Affecting cash	1 820	586	601	12	53		3 072
Not affecting cash	350	10	6				366
Total assets	26 469	16 056	10 279	246	5 295	(227)	58 118

Geographic information

	2005		2004	
	Revenue	Property, plant and equipment, intangible assets and goodwill	Revenue	Property, plant and equipment, intangible assets and goodwill
Québec	9 178	50 986	9 032	49 827
Canada, outside Québec	259	25	127	22
United States	1 387	37	1 158	230
Chile			2	1 685
Other countries	66	189	80	472
	10 890	51 237	10 399	52 236

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 in accordance 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 efficiency of control, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally through its Audit Committee, composed solely of independent directors, who do not hold full-time positions within the Corporation or in one of its subsidiaries. This committee's mandate is to ensure that the consolidated financial statements present fairly Hydro-Québec's financial position, the results of its operations and its cash flows. The Audit Committee meets regularly with Management, the General Auditor and the external auditors to discuss the results of their audits and their findings with respect to the integrity and the quality of the presentation of Hydro-Québec's financial information and the effectiveness of its internal control systems. The General Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management's presence.

The consolidated financial statements for 2005 have been audited by the external auditors, KPMG LLP and Ernst & Young LLP, who were appointed by the shareholder.

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 10, 2006

HYDRO-QUÉBEC**AUDITORS' REPORT**

To the Minister of Finance of Québec

We have audited the consolidated balance sheet of Hydro-Québec as at December 31, 2005, and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, except for the prospective application of changes in accounting policies described in Note 2 to the financial statements, these principles have been applied on a basis consistent with that of the preceding year.

The comparative information for 2004, prior to adjustments to reflect discontinued operations as described in Note 7 to the financial statements, was audited by other auditors, who expressed an unqualified opinion on these statements in their report dated March 16, 2005.

KPMG LLP
Chartered Accountants

Ernst & Young LLP
Chartered Accountants

Montréal, Québec, February 10, 2006

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
INVESTMENTS (Note 3)		
Cash and short-term investments	912	774
Bonds	3 545	3 180
Equities	6 183	5 526
Mortgage loans	37	44
Real estate investments	618	473
Derivative financial instruments	<u>(14)</u>	<u>(21)</u>
	<u>11 281</u>	<u>9 976</u>
ACCOUNTS RECEIVABLE		
Member contributions	2	2
Employer contributions (Note 5)	34	3
Interest and dividends	<u>34</u>	<u>30</u>
	<u>70</u>	<u>35</u>
Other assets	<u>1</u>	<u>1</u>
	11 352	10 012
Accounts payable	<u>21</u>	<u>30</u>
Net assets available for benefits	<u><u>11 331</u></u>	<u><u>9 982</u></u>

See notes to the financial statements.

On behalf of Hydro-Québec, Pension Fund trustee
Michael L. Turcotte
Chairman of the Board

Norman E. Hébert jr.
Member of the Board

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31
(in millions of dollars)

	2005	2004
INCREASE IN ASSETS		
Investment income		
Short-term investments	18	13
Bonds	131	136
Equities	142	107
Mortgage loans	4	3
Real estate investments	35	35
Derivative financial instruments	(11)	(11)
	330	283
Changes in fair value of investments during the year	1 057	804
Contributions		
Members	38	38
Employer (Note 5)	340	26
	1 765	1 151
DECREASE IN ASSETS		
Benefits paid	349	328
Transfers of values and refunds	37	25
Administrative and investment expenses (Note 7)	30	33
	416	386
CHANGE IN NET ASSETS DURING THE YEAR	1 349	765
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	9 982	9 217
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	11 331	9 982

See notes to the financial statements.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in millions of dollars)

1. DESCRIPTION OF PLAN

The following description of the Hydro-Québec Pension Plan (the “Plan”) is a summary only. For more complete information, reference should be made to By-law 707 in respect of the Hydro-Québec Pension Plan (the “By-law”);

a) General

Hydro-Québec and Hydro-Québec International (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 aggregate of the Plan’s investments.

b) Funding policy

Under the By-law, employees 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 report for the Plan sets out the amount to be paid by the employer as additional contributions to cover the difference between the current service cost and regular employer and member contributions where the funding surplus is insufficient. Finally, the employer must cover any actuarial deficit with an equalization contribution.

According to the By-law, additional and equalization contributions will be remitted in priority to the employer as soon as a sufficient funding surplus is declared. This remittance will take the form of a reduction in the regular employer contribution.

c) Member and regular employer contributions

The By-law provides for the suspension of employee 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 presents 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.

Neither member contributions nor regular employer contributions may exceed 6.3% of earnings up to the basic exemption established by the Act respecting the Québec Pension Plan, 4.5% of that portion of earnings between the basic exemption and the maximum pensionable earnings and 6.3% of that portion of earnings exceeding the maximum pensionable earnings.

The member contribution rate in 2005 was 2% of pensionable earnings while regular employer contributions represented 3.6% of 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 contributions meets the conditions set down in the By-law.

e) Retirement benefits

Retirement benefits are based on an annual 2.25% pension credit in respect of years of contributory 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.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

1. DESCRIPTION OF PLAN (cont'd)

e) Retirement benefits (cont'd)

Bridging benefit 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 contribution in the Plan prior to January 1, 2009, and average earnings for the five best years, up to the average maximum pensionable earnings of the five years preceding the date of termination of employment, death or retirement.

Benefits in respect of years of service after 1991 are subject to the limits prescribed in the Income Tax Act (Canada).

After retirement, vested benefits are indexed 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, transfers of values and refunds)

If the member is under 55 years of age at the time of termination of employment, the benefits payable will be the transfer of the actuarial present value of the retirement benefit 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) Redemption of non-contributory leaves of absence

The By-law provides for members to purchase various unpaid or partially paid leaves of absence until December 31, 2008.

i) Transfer agreements

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. The amounts 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 taxes.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

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

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 contracts.

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 where available at year end. When such 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 established as follows:

Cash and short-term investments

Cash and short-term investments (bank deposits, treasury bills, deposit certificates and bankers' acceptances) are valued at cost, which approximates their fair value.

Bonds

Bonds are shown at average closing bond market prices.

Equities

Equities are shown at closing market prices.

Mortgage loans

Mortgage loans are valued at quoted fair value.

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.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**b) Investments (cont'd)***Derivative financial instruments*

Listed derivative financial instruments are valued using the market settlement price as at December 31. Unlisted derivative financial instruments are valued using the present value of future net cash flows determined by using closing market levels 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 as it is realized.

d) Changes in fair value of investments during the year

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 fair value of investments during the year. Potential unrealized gains and losses are accounted for under the same item.

e) Other assets

Other assets, which comprise computer equipment and deferred charges, are recorded at cost less accumulated amortization. They are amortized using the straight-line method over estimated useful lives of three years for computer equipment and four years for deferred charges.

f) 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 year-end exchange rates. Revenue resulting from transactions made in foreign currencies is translated into Canadian dollars at exchange rates in effect at the transaction date.

g) Contributions and transfers

Contributions from employees and regular employer contributions are recorded in the period in which the employer makes payroll deductions.

Contributions received by way of transfer agreements are recorded upon the receipt of the amounts.

Contributions from the Company, as determined by the latest actuarial valuation, are recorded as additional contributions and equalization contributions using the accrual method.

3. INVESTMENTS

Hydro-Québec's pension fund investment management policy sets forth the principles by which pension fund investments are managed.

The following table presents, as at December 31, 2005, the fair value of Plan investments after allocating the derivative instruments based on the underlying financial asset:

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

3. INVESTMENTS (cont'd)

Fair value of investments after allocating the effect of derivative contracts

	Investments	Derivative contracts	2005	2004
Cash and short-term investments	912	(12)	900	783
Nominal bonds	2 908		2 908	2 610
Real return bonds	637		637	545
Equities				
Canadian dollars	3 688		3 688	3 067
U.S. dollars	1 234		1 234	1 172
Other currencies	1 261	(2)	1 259	1 282
Mortgage loans	37		37	44
Real estate investments	618		618	473
Derivative financial instruments	(14)	14		
	<u>11 281</u>	<u></u>	<u>11 281</u>	<u>9 976</u>

The total cost of investments was \$9 475 million as at December 31, 2005 (\$8 781 million as at December 31, 2004).

a) Foreign currency risk

Foreign currency risk results from Plan investments denominated in currencies other than the Canadian dollar.

Breakdown of investment value (%)

	2005	2004
Currencies		
Canadian dollars	78	75
U.S. dollars	11	12
Other currencies	11	13
	<u>100</u>	<u>100</u>

Derivative contracts are used to manage foreign currency risk and to take advantage of opportunities on the foreign exchange market.

Notional amount of forward exchange contracts

	2005			2004		
	Notional value	Fair value		Notional value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Forward exchange contract	1 465	9.0	(18.8)	1 306	15.5	(19.7)

b) Market risk

Market risk refers to the possibility that the market value of an investment will fluctuate due to changes in market price caused by factors specific to the security or its issuer or factors affecting all securities traded on the market. The pension fund's investment management policy favors a diversified portfolio structure to manage the portfolio's market risk.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

3. INVESTMENTS (cont'd)

b) Market risk (cont'd)

The equities and bonds are from different issuers and sectors. The following table presents the breakdown of securities according economic sector:

Breakdown of securities according to principal economic sector

	2005			2004		
	Bonds	Equities	Total	Bonds	Equities	Total
Government	2 600		2 600	2 312		2 312
Financial services	485	1 316	1 801	472	1 158	1 630
Consumer	43	1 158	1 201	46	1 231	1 277
Energy	101	699	800	83	469	552
Other	316	3 010	3 326	267	2 668	2 935
	<u>3 545</u>	<u>6 183</u>	<u>9 728</u>	<u>3 180</u>	<u>5 526</u>	<u>8 706</u>

c) Interest rate risk

Interest rate risk refers to the possibility that the market value of an investment will fluctuate due to changes in market interest rates. The interest rate sensitivity of the value of fixed-interest securities depends on maturities and the pension fund's cash flows from assets. It is estimated that a 1% increase in interest rates on the market value of interest-rate sensitive investments would result in a 10% decline (9% in 2004) in the fair value of the bond portfolio.

Maturities and average effective rates of fixed-interest securities

	2005				2004	
	Maturities				Value	Average effective rate
	< 1 year	1 to 5 years	> 5 years	Total		
Cash	20			20	130	
Short-term investments	892			892	644	2.6
Nominal bonds	150	1 203	1 555	2 908	2 635	4.3
Real return bonds			637	637	545	2.1
Mortgage loans		4	33	37	44	3.8
	<u>1 062</u>	<u>1 207</u>	<u>2 225</u>	<u>4 494</u>	<u>3 998</u>	

(1) Real effective rate

d) Credit risk

As at December 31, 2005, the most significant concentration of credit risk is with Government of Canada bonds and treasury bills. These securities, with a fair value of \$2 002 million, represented 18% of the total investment portfolio as at December 31, 2005 (\$1 576 million and 16.0% as at December 31, 2004).

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

3. INVESTMENTS (cont'd)**d) Credit risk (con't)**

Certain derivative contracts include an element of risk, since counterparty may be unable to meet its obligations. However, this is a low risk since Hydro-Québec, as Trustee, deals only with recognized stock exchanges and counterparties with high credit ratings.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The 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, among other things, to change the asset mix as well as in certain tactical trading portfolios to benefit from market opportunities.

The value of a derivative financial instrument is based on the value of the underlying asset, interest rate, index or exchange rate.

a) Forward and future contracts

Forward and future contracts are firm commitments to take delivery of or to deliver a currency or a given financial instrument according to the characteristics and prices set out in the contract. These could be forward exchange contracts, or forward commodity contracts, equity and bond futures.

b) Swaps

Swaps are commitments under which fixed or variable interest payments are swapped 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 commitments conferring a right rather than an obligation for a holder to take delivery of or to deliver a financial instrument at the stipulated price at a given date or within a specified time frame.

The following table presents the pension fund portfolio's final exposure to market risk for the various asset classes as at December 31, 2005. 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 according to final exposure to market risk

	2005	2004
Debt securities		
Nominal bonds	3 128	2 755
Real return bonds	638	546
Cash and short term securities	170	183
Equity securities		
Equities		
Canadian	3 942	3 363
American	1 435	1 287
International	1 377	1 393
Real estate investments	625	479
	<u>11 315</u>	<u>10 006</u>

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

5. EMPLOYER CONTRIBUTIONS

An actuarial valuation report as at December 30, 2004, was filed with the Régie des rentes du Québec in November 2005. This valuation showed a funding deficit of \$327 million.

Pursuant to the By-law, employer contributions in 2005 were therefore increased above and beyond regular contributions of 3.6% of pensionable earnings to cover the current service cost in excess of member and regular employer contributions. The employer is also required to make an equalization contribution to cover the funding deficit, amortized over 15 years.

Pursuant to the Supplemental Pension Plans Act, an additional contribution was made after the actuarial valuation report was submitted to cover the difference between regular employer contributions paid since January 1, 2005, and contributions that should have been made. It included interest anticipated in this Act, calculated according to the fund's rate of return on investment.

Employer's contributions

	2005	2004
Regular contributions	52	26
Additional contributions	254	
Equalization contribution	34	
Total employer's contributions	<u>340</u>	<u>26</u>

The amounts paid above and beyond regular contributions may be used according to certain conditions set out in the By-law to reduce regular contributions to be made by the employer in the future.

Furthermore, the most recent actuarial valuation of the Hydro-Québec Pension Plan for funding purposes, dated December 31, 2005, shows a deficit of \$618 million.

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, 2005.

The actuarial present value of accrued retirement benefits is determined using the projected benefit method prorated on years of service and Hydro-Québec Management's best estimate assumptions with respect to future events.

Fair value of net assets available over the actuarial present value of accrued retirement benefits

	2005	2004
Fair value of net assets available for benefits	<u>11 331</u>	<u>9 982</u>
Actuarial present value of accrued benefits		
Balance, at beginning of year	10 233	8 608
Accrued benefits	329	286
Accrued interest on accrued benefits	614	567
Benefit payments, transfers of values and refunds	(386)	(353)
Experience losses (gains) and changes in assumptions	1 103	1 125
Balance, at end of year	<u>11 893</u>	<u>10 233</u>
Deficit in fair value of net assets available for benefits over the actuarial present value of accrued retirement benefits	<u>(562)</u>	<u>(251)</u>

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2005 and 2004
(in millions of dollars)

6. OBLIGATIONS FOR PENSION BENEFITS (cont'd)

Fair value of net assets available over the actuarial present value of accrued retirement benefits (cont'd)

Significant actuarial assumptions

	2005	2004
Discount rate	5.3 %	6.0 %
Salary escalation rate ⁽¹⁾	3.9	3.9

(1) 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 Government of Québec. These securities represent 6.7% of the net assets available for benefits as at December 31, 2005 (6.6% as at December 31, 2004). Also, the cost of services rendered by Hydro-Québec as administrative and investment expenses totaled \$11.6 million in 2005 (\$10.8 million in 2004).

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, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Hydro-Québec, as the Pension Fund's trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Hydro-Québec's Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Hydro-Québec Pension Plan as at December 31, 2005 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the preceding year were reported on by other auditors, who issued an unqualified opinion in their report dated February 15, 2005.

KPMG LLP
Chartered Accountants

Ernst & Young LLP
Chartered Accountants

Montréal, Canada, February 10, 2006

IMMOBILIÈRE SHQ
(R.S.Q., c. I-0.3)

REVENUES AND RETAINED EARNINGS
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
REVENUES		
Consideration receivable from agencies for use of fixed assets	174 615	170 000
Interest earned and other income	32 675	33 640
Compensation to organizations (Note 3)	164	8
Gain on disposal of fixed assets	18	
Gouvernement du Québec subsidy	<u>575</u>	<u>800</u>
	<u>208 047</u>	<u>204 448</u>
EXPENSES		
Interest	151 285	160 074
Amortization	41 465	38 555
Loss on disposal of fixed assets	24	
Dispute settlement	140	8
Amount remitted to agencies for gain on sale of buildings	69	4
Administrative expenses (Note 4)	<u>575</u>	<u>800</u>
	<u>193 558</u>	<u>199 441</u>
NET INCOME	14 489	5 007
RETAINED EARNINGS, BEGINNING OF YEAR	<u>21 520</u>	<u>16 513</u>
RETAINED EARNINGS, END OF YEAR	<u><u>36 009</u></u>	<u><u>21 520</u></u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ

BALANCE SHEET
as at December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Fixed assets (Note 5)	1 680 491	1 716 973
Loans (Note 6)	414 041	425 271
Accrued interest on loans	6 448	6 637
Accounts receivable	32 962	35 514
Cash and cash equivalents (Note 7)	<u>12 486</u>	<u>16 651</u>
	<u>2 146 428</u>	<u>2 201 046</u>
LIABILITIES		
Long-term debt (Note 8)	2 042 883	2 027 271
Short-term borrowing (Note 9)		85 786
Deferred subsidies		
Canada Mortgage and Housing Corporation	5 000	5 093
Gouvernement du Québec	43	59
Housing authority	4 551	159
Interest accrued on debt and borrowing	44 409	47 558
Accounts payable	<u>3</u>	<u>70</u>
	<u>2 096 889</u>	<u>2 165 996</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 10)	13 530	13 530
Retained earnings	<u>36 009</u>	<u>21 520</u>
	<u>49 539</u>	<u>35 050</u>
	<u>2 146 428</u>	<u>2 201 046</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**CASH FLOWS**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash inflows – organizations	177 368	172 110
Cash inflows – Gouvernement du Québec subsidy	575	800
Cash inflow– Housing authorities contribution	4 408	159
Cash flows – dispute settlement		60
Cash payments – administrative expenses	(575)	(800)
Cash payments – organizations	(116)	(235)
Cash payments – dispute settlement	(208)	
Interest received	32 750	33 722
Interest paid	<u>(154 434)</u>	<u>(161 324)</u>
	<u>59 768</u>	<u>44 492</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Encashment on loans	11 230	12 109
Proceeds from disposal of fixed assets	175	4
Acquisition of fixed assets	<u>(5 164)</u>	<u>(383)</u>
	<u>6 241</u>	<u>11 730</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Repayment of short-term borrowing	(85 786)	
Long-term debt	80 628	
Repayment of long-term debt	<u>(65 016)</u>	<u>(53 762)</u>
	<u>(70 174)</u>	<u>(53 762)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4 165)	2 460
CASH AND CASH EQUIVALENTS' BEGINNING OF YEAR	<u>16 651</u>	<u>14 191</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	<u><u>12 486</u></u>	<u><u>16 651</u></u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ**NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2005

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The purpose of Immobilière SHQ, a legal entity with a partnership fund and an agent of the State, established by the Act respecting Immobilière SHQ (R.S.Q., chapter I-0.3), is:

- To acquire, with the related rights and obligations, residential buildings, notably those belonging to the Société d'habitation du Québec, and, for a consideration, to make these buildings available to housing offices or other non-profit organizations wishing to operate them;
- To acquire the rights and obligations resulting from loans awarded by the Société d'habitation du Québec to housing offices or other non-profit organizations.

Immobilière SHQ entrusted the Société d'habitation du Québec, legal entity established by a special statute (R.S.Q., c. S-8), with the mandate of administering, for a consideration, its property and the resulting obligations and the mandate of managing the everyday affairs related to this property.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities presented in the financial statements and notes. The amounts presented and the information provided in the notes are established using management's best estimates.

Immoveables

Immoveables are recorded at cost.

The amortization of buildings is calculated at a rate of 7.5% using the sinking fund method (increasing allotment) so as to completely amortize the cost of buildings over periods of 35 and 40 years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments, highly liquid, that are easily convertible into a known amount of cash, whose value should not change significantly.

3. COMPENSATION PAID TO ORGANIZATIONS

	2005	2004
Loss on disposal of immoveables	24	
Dispute settlement	140	8
	<u>164</u>	<u>8</u>

4. ADMINISTRATIVE EXPENSES

	2005	2004
Wages and other remuneration		27
Management fees (Note 11)	575	773
	<u>575</u>	<u>800</u>

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

5. IMMOVEABLES

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Land *	101 726		101 726	101 764
Buildings	1 787 912	209 147	1 578 765	1 615 209
	<u>1 889 638</u>	<u>209 147</u>	<u>1 680 491</u>	<u>1 716 973</u>

* Immobilière SHQ holds the superficies user's rights, for an unlimited duration, for land belonging to the Ville de Montréal for \$13.7 million.

6. LOANS

	2005				2004
	Fixed interest rates maturing				
	from 2007 to 2019	from 2020 to 2024	from 2025 to 2030	Total	Total
Loans guaranteed by real estate mortgages, repayable in monthly or annual instalments at an interest rate of:					
6.875%	7 625	59 979		67 604	70 063
7.000% to 7.500%	135	52 479	15 099	67 713	69 484
7.625% to 7.875%	96	101 972	51 466	153 534	157 807
8.000% to 8.625%		34 137	77 971	112 108	114 414
10.500% to 15.125%	1 661		193	1 854	1 929
	<u>9 517</u>	<u>248 567</u>	<u>144 729</u>	<u>402 813</u>	<u>413 697</u>
Unsecured loans, repayable in monthly instalments at an interest rate of:					
5.050%		171		171	178
6.875%		8 278		8 278	8 579
8.000%			2 779	2 779	2 817
		<u>8 449</u>	<u>2 779</u>	<u>11 228</u>	<u>11 574</u>
	<u>9 517</u>	<u>257 016</u>	<u>147 508</u>	<u>414 041</u>	<u>425 271</u>

Encashments receivable over the coming fiscal years on loans are as follows:

2006	11 676
2007	12 586
2008	13 491
2009	14 543
2010	<u>15 678</u>
Amount carried forward	<u>67 974</u>

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

6. LOANS (cont'd)

Amount brought forward	67 974
2011 to 2015	98 784
2016 to 2020	140 243
2021 to 2025	91 427
2026 to 2030	15 613
Total	<u>414 041</u>

7. CASH AND CASH EQUIVALENTS

	<u>2005</u>	<u>2004</u>
Cash on hand	63	7 270
Short-term investments, at cost 3.24% to 3.66%	<u>12 423</u>	<u>9 381</u>
	<u>12 486</u>	<u>16 651</u>

8. LONG-TERM DEBT

	<u>2005</u>			<u>2004</u>
	<u>Fixed interest rates maturing</u>			
	<u>2006</u>	<u>from 2007 to 2015</u>	<u>from 2019 to 2032</u>	<u>Total</u>
Canada Mortgage and Housing Corporation				
Bonds				
3.720% to 6.240%, repayable in monthly instalments	93 029 *	683 055 *		776 084
6.875% to 11% repayable in annual or semi-annual instalments and redeemable in advance		135	352 123	352 258
5.944%, repayable in annual instalments		1 076	302 856	303 932
Loan guaranteed by real estate mortgage				
7.875%, repayable in monthly instalments			552	552
Amounts carried forward	<u>93 029</u>	<u>684 266</u>	<u>655 531</u>	<u>1 432 826</u>
				<u>1 402 426</u>

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

8. LONG-TERM DEBT (cont'd)

	2005			2004
	Fixed interest rates maturing			
	2006	from 2007 to 2015	from 2019 to 2032	Total
Amounts brought forward	93 029	684 266	655 531	1 432 826
Other				
Bonds, repayable in annual instalments and insured by the Canada Mortgage and Housing Corporation at interest rate of:				
8.950% to 11.375%		609 886 *		609 886
Term loan, 5.050%, repayable in monthly instalments		171 *		171
		610 057		610 057
	93 029	1 294 323	655 531	2 042 883

* At term, the balance owing on these debts will be refinanced.

Assuming that refinancing would occur at term under the same conditions as when the financial statements were signed, the capital payments to make in the coming fiscal years on the long-term debt would be as follows:

2006	64 744
2007	69 164
2008	73 833
2009	78 970
2010	84 483
	371 194
2011 to 2015	507 751
2016 to 2020	537 816
2021 to 2025	467 839
2026 to 2032	158 283
Total	2 042 883

9. SHORT-TERM BORROWING

Immobilière SHQ is authorized to undertake short-term borrowings from financial institutions and Gouvernement du Québec's Financing Fund, a mutually-controlled entity, to a maximum of \$500 million.

Any borrowing contracted in keeping with this authorization will bear interest at the rate negotiated at the time it was contracted, generally 1.5% less than the prime rate.

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

10. CAPITAL STOCK

Immobilière SHQ shares are held by the Minister of Finance.

	2005	2004
Authorized 150 000 shares with a par value of \$100 each		
Issued and paid up 135 300 shares	13 530	13 530

11. RELATED PARTY TRANSACTIONS

During the fiscal year, Immobilière SHQ carried out transactions with entities controlled with or related through members of management of the Société d'habitation du Québec. The amount of these transactions and the resulting balances in the financial statements at year-end are as follows:

	2005	2004
Société d'habitation du Québec		
Management fees	575	773
Société de gestion immobilière – SHQ		
Consideration payable by organizations for use of fixed assets	2 591	2 132
Accounts receivable	344	369
Corporation d'hébergement du Québec		
Interest and other income	2 651	2 712
Loans	34 418	35 284
Interest accrued on loans	1 285	1 316

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

12. FINANCIAL INSTRUMENTS**Interest rate risk**

The interest rate risk is minimal since the interest rates and terms of the loans and long-term debt to which they apply are the same for all intents and purposes.

The interest rates risk for the long-term debt for fixed assets belonging to Immobilière SHQ is also minimal since the consideration payable by agencies for the use of these fixed assets equals the amount of capital, interest, costs and related amounts for all long-term debts and short-term borrowings contracted to finance the acquisition, construction or renovation of these fixed assets.

IMMOBILIÈRE SHQ

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

12. FINANCIAL INSTRUMENTS (cont'd)**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, 2005, the fair value of Immobilière SHQ's \$2 043 million (2004: \$2 027 million) long-term debt was \$2 226 million (2004: \$2 227 million), given the discounting of cash flows at comparable market rates for similar fixed-rate shares. However, in the above-mentioned fair value, \$656 million (2004: \$673 million) was not assessed and was considered at book value, given the lack of a market for this type of long-term debt. These long-term debts have guaranteed rates for periods generally spanning between 20 and 30 years.

Other asset and liabilities

The fair value of cash, short-term investments, accounts receivable, the short-term borrowing, interest charges and accounts payable is equivalent to their book value, given that they mature in the near future.

13. COMPARATIVE FIGURES

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

IMMOBILIÈRE SHQ**MANAGEMENT'S REPORT**

In keeping with the management agreement between the Société d'habitation du Québec and Immobilière SHQ, the financial statements of Immobilière SHQ were drawn up by management, which is responsible for providing complete, accurate data, notably significant judgements and estimates. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, the Société d'habitation du Québec maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that property is protected and transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management performs periodic audits to ensure that internal controls are applied properly, uniformly and on an ongoing basis.

Immobilière SHQ recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which the Société d'habitation du Québec performs its financial reporting duties, meets with the latter and the auditor general, reviews the financial statements and approves them.

The Auditor General of Québec has audited Immobilière SHQ's financial statements for the fiscal year ended December 31, 2005 in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

I am in a position to confirm that the Société d'habitation du Québec has properly met all of the obligations and commitments stipulated in the management contract.

Pierre Cliche
President and Director General,
Société d'habitation du Québec

Québec, February 28, 2006

IMMOBILIÈRE SHQ**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Immobilière SHQ as at December 31, 2005 and the statements of revenue, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Immobilière SHQ. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, Immobilière SHQ's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, February 28, 2006

INSTITUT DE LA STATISTIQUE DU QUÉBEC
(R.S.Q., c. I-13.011)

INCOME AND SURPLUS STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Gouvernement du Québec subsidies		
- Operating subsidy	\$13 393 600	\$14 831 900
- Other non-recurrent subsidy	145 283	663 293
Services rendered	9 965 847	7 573 268
Other revenue	<u>147 103</u>	<u>144 026</u>
	<u>23 651 833</u>	<u>23 212 487</u>
EXPENSES		
Salaries and fringe benefits	17 031 213	16 496 276
Professional fees	1 260 819	1 666 334
Rent	1 559 414	1 757 279
Computer services and supplies	493 024	699 283
Purchase of statistical data	435 029	304 439
Communications	370 074	365 845
Travel and accommodation expenses	297 297	286 572
Office expenses	161 854	151 688
Printing costs	184 179	230 439
Training costs	125 526	151 431
Amortization of fixed assets	388 164	385 403
Amortization of intangible assets	1 013 458	996 815
Other expenses	<u>73 439</u>	<u>277 613</u>
	<u>23 393 490</u>	<u>23 769 417</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	258 343	(556 930)
SURPLUS, BEGINNING OF YEAR	<u>247 515</u>	<u>804 445</u>
SURPLUS, END OF YEAR	<u><u>\$505 858</u></u>	<u><u>\$247 515</u></u>

The notes are an integral part of these financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$5 575 917	\$6 036 394
Accounts receivable	2 369 973	1 807 839
Gouvernement du Québec receivable, without interest	145 283	325 260
Work under way	1 122 890	393 100
Prepaid expenses	403 858	198 215
	<u>9 617 921</u>	<u>8 760 808</u>
Fixed assets (Note 3)	719 584	879 834
Intangible assets (Note 4)	<u>2 120 842</u>	<u>3 109 772</u>
	<u>\$12 458 347</u>	<u>\$12 750 414</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$628 550	\$1 016 414
Deferred revenue	4 851 753	4 703 886
Vacation pay owing to employees	1 713 944	1 744 578
	<u>7 194 247</u>	<u>7 464 878</u>
Deferred subsidy	1 223 121	1 687 154
Provision for sick leave (Note 6)	<u>3 535 121</u>	<u>3 350 867</u>
	11 952 489	12 502 899
SURPLUS	<u>505 858</u>	<u>247 515</u>
	<u>\$12 458 347</u>	<u>\$12 750 414</u>

The notes are an integral part of these financial statements.

Yvon Fortin
Director General of the
Institut de la statistique du Québec

INSTITUT DE LA STATISTIQUE DU QUÉBEC

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Excess (insufficient) revenue over expenditure	\$258 343	\$(556 930)
Adjustments for:		
Amortization of fixed assets	388 164	385 403
Amortization of intangible assets	1 013 458	996 815
Increase in the provision for sick leave	184 254	180 546
	<u>1 844 219</u>	<u>1 005 834</u>
Variation in non-cash elements linked to operations		
Increase in accounts receivable	(562 134)	(361 654)
Increase in work under way	(729 790)	(233 998)
Change in prepaid expenses	(205 643)	7 061
Decrease in inventories		31 877
Decrease in amounts receivable from the Gouvernement du Québec	179 977	220 156
Decrease in accounts payable and accruals	(387 864)	(113 759)
Increase in deferred revenue	147 867	1 165 974
Decrease in vacation pay owing to employees	(30 634)	(25 238)
Decrease in deferred subsidy	<u>(464 033)</u>	<u>(464 032)</u>
Cash flows provided by operating activities	<u>(208 035)</u>	<u>1 232 221</u>
INVESTMENT ACTIVITIES		
Acquisitions of fixed assets	(227 914)	(323 760)
Acquisitions intangible assets	<u>(24 528)</u>	<u>(8 168)</u>
Cash flows used for investment activities:	<u>(252 442)</u>	<u>(331 928)</u>
VARIATION IN CASH AND CASH EQUIVALENTS	(460 477)	900 293
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>6 036 394</u>	<u>5 136 101</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$5 575 917</u>	<u>\$6 036 394</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 closed March 31, 2006

1. CONSTITUTION AND PURPOSE

The Institut de la statistique du Québec was established by the Act respecting the Institut de la statistique du Québec (R.S.Q., c. I-13.011). Its purpose is to supply reliable, objective statistical information on the situation in Québec regarding all aspects of Québec society for which such information is relevant.

2. ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise petty cash and bank balances minus outstanding cheques, where applicable.

Use of estimates

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Recording proceeds

Proceeds from service delivery are recorded according to the proportional performance method. Work under way includes fees and disbursements not yet invoiced to clients at net realization value. Deferred proceeds comprise work invoiced in advance.

Fixed assets

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

	Rate
Leasehold improvements	20%*
Furniture	20%
Equipment	33 1/3%
Data processing equipment	33 1/3%
Telephone system	33 1/3%

* Previously, leasehold improvements were amortized using the straight-line method according to their service life, at a rate of 10%.

Intangible assets

Intangible assets, comprising computer and software development, are recorded at cost and amortized over their service life using the straight-line method. They undergo a depreciation test when changes in the situation indicate that it may not be possible to recover their book value.

	Rate
Computer development	20%
Software	33 1/3%

Pension plans

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

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year closed March 31, 2006**2. ACCOUNTING POLICIES (cont'd)****Subsidy recording**

The Gouvernement du Québec subsidy for the acquisition of fixed assets is recorded as a deferred subsidy and entered under operations using the same method and amortization rates as subsidized intangible assets.

3. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$556 503	\$294 703	\$261 800
Furniture	346 076	323 484	22 592
Equipment	40 379	39 437	942
Data processing equipment	1 500 957	1 066 707	434 250
Telephone system	236 822	236 822	
	<u>\$2 680 737</u>	<u>\$1 961 153</u>	<u>\$719 584</u>

4. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Computer development	\$5 255 564	\$3 162 336	\$2 093 228
Software	102 509	74 895	27 614
	<u>\$5 358 073</u>	<u>\$3 237 231</u>	<u>\$2 120 842</u>

5. AUTHORIZED CREDIT MARGIN

The Institut has rotating credit of \$2 000 000 with the Consolidated Revenue Fund. Advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2008. At March 31, 2006, no advance had been contracted.

6. FUTURE FRINGE BENEFITS**Pension plans**

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

The Institut's contributions charged to the year-end statement amount to \$731 005 (2005: \$559 756). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Opening balance	\$3 350 867	\$3 170 321
Charge for the year	747 672	735 075
Benefits paid during the year	<u>(563 418)</u>	<u>(554 529)</u>
Closing balance	<u>\$3 535 121</u>	<u>\$3 350 867</u>

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year closed March 31, 2006

7. FINANCIAL INSTRUMENTS

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

8. RELATED PARTY TRANSACTIONS

Transactions with commonly-controlled entities break down as follows:

	<u>2006</u>	<u>2005</u>
Services rendered	\$8 400 631	\$6 561 893
Accounts receivable	1 950 095	1 481 039
Work under way	808 307	360 033
Prepaid expenses	135 084	136 974
Accounts payable and accruals	46 302	42 577
Deferred revenue	4 675 682	4 652 352

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

9. COMPARATIVE FIGURES

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

INSTITUT DE LA STATISTIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de la statistique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Institut de la statistique du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Yvon Fortin
Director General of the Institut de la statistique du Québec

Québec, May 18, 2006

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, 2006 and the income and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 18, 2006

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
(R.S.Q., c. I-13.02)

REVENUES, EXPENSES AND SURPLUS
for the year ended June 30, 2005

	2005	2004
REVENUES		
Gouvernement du Québec subsidy (Note 4)	\$20 294 444	\$18 081 569
Retraining, vocational upgrading and customized training	819 172	848 112
Regular instruction	403 508	398 965
Food services	1 321 441	555 057
Lodging	384 358	
Interest on investments	255 657	211 768
Professional services	805 004	615 065
Other revenues	472 649	414 833
	<u>24 756 233</u>	<u>21 125 369</u>
EXPENSES		
Salaries and fringe benefits	12 780 987	11 998 779
Education and administrative supplies	2 431 148	1 710 386
Maintenance, repairs and public services	1 208 555	1 388 337
Ancillary services	1 787 637	1 422 641
Financial expenses	417 429	22 276
Property and other taxes	1 249 243	952 219
Instructors, lecturers and student assistance	1 072 845	714 689
Communications and travelling	451 068	384 655
Loss on write-off of fixed assets	29 001	29 631
Other administrative expenses	303 823	198 055
Depreciation of fixed assets	3 167 292	1 800 109
	<u>24 899 028</u>	<u>20 621 777</u>
EXCESS EXPENSES OVER REVENUES	(142 795)	503 592
SURPLUS, BEGINNING OF YEAR	<u>1 159 371</u>	<u>655 779</u>
SURPLUS, END OF YEAR (Note 5)	<u>\$1 016 576</u>	<u>\$1 159 371</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

BALANCE SHEET
as at June 30, 2005

	2005	2004
ASSETS		
Current assets		
Cash on hand	\$2 033 802	\$79 756
Short-term investments		8 953 227
Accounts receivable and accrued interest (Note 6)	665 164	448 938
Inventory (Note 7)	227 250	217 003
Prepaid expenses	828 325	536 607
Gouvernement du Québec subsidy receivable	2 221 756	
	<u>5 976 297</u>	<u>10 235 531</u>
Loan to the Fondation de l'ITHQ (Note 15)	50 000	
Gouvernement du Québec subsidy receivable	36 825 544	20 414 835
Investments, at cost (Note 8)	1 502 726	1 070 431
Fixed assets (Note 9)	<u>42 501 036</u>	<u>28 144 178</u>
	<u>\$86 855 603</u>	<u>\$59 864 975</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$3 754 739	\$2 224 045
Prepaid subsidies	720 338	6 315 013
Accrued expenses related to fixed assets		20 414 835
Portion of the long-term debt maturing in the coming fiscal year (Note 12)	524 456	
	<u>4 999 533</u>	<u>28 953 893</u>
Deferred subsidies related to immoveables (Note 10)	40 846 829	26 710 049
Provision for sick leave (Note 11)	1 480 894	1 506 705
Long-term debt (Note 12)	<u>36 825 544</u>	
	<u>84 152 800</u>	<u>57 170 647</u>
EQUITY		
Gouvernement du Québec contribution (Note 3)	1 686 227	1 534 957
Surplus (Note 5)	1 016 576	1 159 371
	<u>2 702 803</u>	<u>2 694 328</u>
	<u>\$86 855 603</u>	<u>\$59 864 975</u>

On behalf of the Board of Directors,
Raymond Larivée, President
Robert Gagnon, Vice-President and President of the Audit Committee

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

CASH FLOWS

for the year ended June 30, 2005

	2005	2004
OPERATING ACTIVITIES		
Excess expenditure over revenue	\$(142 795)	\$503 592
Adjustments for:		
Loss on write-off of fixed assets	29 001	29 631
Amortization of fixed assets	3 167 292	1 800 109
Amortization of deferred subsidies related to immoveables	(2 981 429)	(1 596 528)
Amortization of premiums on purchase of investments	898	8 141
Change in the provision for sick leave	(25 811)	32 220
	47 156	777 165
Change in non-cash items related to operations:		
(Increase) decrease in accounts receivable and accrued interest	(191 226)	187 735
(Increase) decrease in inventory	(10 247)	46 083
(Increase) decrease in prepaid expenses	(291 718)	58 156
Variation in Gouvernement du Québec subsidies receivable and/or collected in advance	(44 641 975)	5 813 596
Increase in accounts payable and accruals	1 530 694	36 389
Increase in deferred subsidies related to immoveables	17 118 209	422 822
	(26 486 263)	6 564 781
Cash flows related to operating activities	(26 439 107)	7 341 946
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(17 553 151)	(595 187)
Acquisition of long-term investments	(433 193)	(1 655)
Loan to the Fondation de l'ITHQ	(75 000)	
Cash flows related to investment activities	(18 061 344)	(596 842)
FINANCING ACTIVITIES		
Increase in the Gouvernement du Québec contribution	151 270	87 330
Increase in the long-term debt	37 350 000	
Cash flows related to financing activities	37 501 270	87 330
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6 999 181)	6 832 434
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	9 032 983	2 200 549
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	\$2 033 802	\$9 032 983

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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.

The commercial activities of the Hôtel de l'Institut, which were interrupted in 2003 due to requalification work, started up again in fiscal 2005.

2. ACCOUNTING POLICIES

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Fixed assets

Fixed assets, including projects under way, are recorded at cost and depreciated over their estimated service life according to the straight-line method at the following annual rates:

Fixed assets	
Building	4%
Permanent leasehold improvements	10%
Kitchen equipment and technical material	10%
Computer equipment	20%
Rolling stock	25%
Intangible assets	
Software	20%

Reporting subsidy income

Subsidies receivable related to immoveables 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 related to the acquisition of amortizable immoveables are recorded as revenues using the same method and the same rates as those used to amortize the immoveables to which they were related.

Operating subsidies are recorded as revenues when they are received or receivable.

Use of estimates

Establishing financial statements in keeping with the accounting principles generally recognized in Canada requires management to make estimates and assumptions that affect the figures recorded under assets and liabilities on the date of the financial statements and the revenues and expenses recorded during the fiscal year.

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 FINANCIAL STATEMENTS (cont'd)
June 30, 2005

2. ACCOUNTING POLICIES (cont'd)

Pension plans

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

Cash and cash equivalents

The entity's policy consists in presenting under cash and cash equivalents the 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.

3. ADJUSTMENT TO PREVIOUS FISCAL YEARS

The financial statements ending June 30, 2004 were adjusted to reflect two corrections pertaining to previous fiscal years.

The amount of the Gouvernement du Québec subsidy for the initial acquisition of the Institut's property, i.e. \$795 900, was reduced under Deferred subsidies related to immoveables and the balance of the Gouvernement du Québec contribution at July 1, 2003 was increased by the same amount.

Further, the amount of the Gouvernement du Québec subsidy for the acquisition of works of art in fiscal 2004, i.e. \$87 330, was reduced under Deferred subsidies related to immoveables and the balance of the Gouvernement du Québec contribution at June 30, 2004 was increased by the same amount.

4. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2005	2004
Operations	\$17 340 215	\$16 512 241
Amortization of deferred subsidies related to immoveables	2 954 229	1 569 328
	<u>\$20 294 444</u>	<u>\$18 081 569</u>

5. SURPLUS

The cumulated surplus at June 30, 2005 of approximately \$619 707 corresponds to an amount of unamortized immoveables acquired from the same operating budget. The amortization costs related to these fixed assets will be posted to future fiscal years.

6. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2005	2004
Tax receivable	\$334	\$68 104
Retraining, vocational upgrading and customized education	329 062	91 506
Lodging and food services	191 497	
Accrued interest on investments	13 293	130 946
Fondation de l'ITHQ (Note 15)	32 176	75 187
Other	98 802	83 195
	<u>\$665 164</u>	<u>\$448 938</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005
7. INVENTORY

	2005	2004
Kitchen and restaurant equipment	\$10 951	\$43 311
Food and beverages	119 943	54 894
Maintenance supplies and tools	96 356	118 798
	<u>\$227 250</u>	<u>\$217 003</u>

8. INVESTMENTS

Long-term investments comprise Gouvernement du Québec, municipal and school board bonds, bearing interest at rates varying from 3.6% to 6.5% and maturing between 2006 and 2012.

9. FIXED ASSETS

	2005			2004
	Cost	Accumulated Depreciation	Net	Net
Fixed assets				
Land	\$795 900		\$795 900	\$795 900
Building	25 937 010	\$6 695 256	19 241 754	13 499 368
Permanent leasehold improvements *	19 547 837	4 772 649	14 775 188	9 146 764
Kitchen equipment and technical material	8 929 612	2 317 245	6 612 367	4 047 958
Computer equipment *	1 295 223	645 986	649 237	509 949
Rolling stock	26 229	26 229		
Works of art	238 600		238 600	87 330
	<u>56 770 411</u>	<u>14 457 365</u>	<u>42 313 046</u>	<u>28 087 269</u>
Intangible assets				
Software*	424 595	236 605	187 990	56 909
	<u>\$57 195 006</u>	<u>\$14 693 970</u>	<u>\$42 501 036</u>	<u>\$28 144 178</u>

* Fixed assets include unamortized projects under way for \$380 946.

10. DEFERRED SUBSIDIES RELATED TO IMMOVEABLES

	2005	2004
Gouvernement du Québec		
Opening balance	\$26 615 949	\$11 102 768
Adjustment (Note 3)		(883 230)
Gouvernement du Québec subsidy	17 118 209	17 965 739
Amortization for the fiscal year	<u>(2 954 229)</u>	<u>(1 569 328)</u>
Closing balance (amounts carried forward)	<u>\$40 779 929</u>	<u>\$26 615 949</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

10. DEFERRED SUBSIDIES RELATED TO IMMOVEABLES (cont'd)

	2005	2004
Closing balance (amounts brought forward)	\$40 779 929	\$26 615 949
Other		
Opening balance	94 100	121 300
Amortization for the fiscal year	(27 200)	(27 200)
Closing balance	66 900	94 100
	<u>\$40 846 829</u>	<u>\$26 710 049</u>

11. FRINGE BENEFITS**Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Institut's contributions charged to the year amount to \$460 616 (2004: \$384 330). This amount constitutes the Institut's obligations to these plans.

	2005	2004
Provision for vacation time *		
Opening balance	\$1 046 916	\$1 205 185
Charge for the year	1 458 637	1 288 976
Benefits paid during the year	(1 258 967)	(1 447 245)
Closing balance	1 246 586	1 046 916
Provision for sick leave		
Opening balance	1 506 705	1 474 484
Charge for the year	526 082	480 247
Benefits paid during the year	(551 893)	(448 026)
Closing balance	1 480 894	1 506 705
	<u>\$2 727 480</u>	<u>\$2 553 621</u>

* Included in the item "Accounts payable and accruals".

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005
12. LONG-TERM DEBT

	<u>2005</u>	<u>2004</u>
Borrowing from the Gouvernement du Québec Financing Fund, at a fixed rate of 5.258%, repayable in biannual payments of \$1 370 165, including capital and interest, maturing on June 3, 2030	\$37 350 000	
Payments falling due within a year	<u>(524 456)</u>	
	<u>\$36 825 544</u>	

Capital payments to be made over the next five fiscal years break down as follows:

2006	\$524 456
2007	792 597
2008	834 819
2009	879 291
2010	926 132

13. CASH FLOWS

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

	<u>2005</u>	<u>2004</u>
Cash on hand	\$2 033 802	\$79 756
Short-term investments		<u>8 953 227</u>
	<u>\$2 033 802</u>	<u>\$9 032 983</u>

14. FINANCIAL INSTRUMENTS

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

The fair value of long-term investments is \$1 593 220 (2004: \$1 100 382). 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 is equivalent to its book value, since the debt was negotiated at fiscal year-end.

15. FONDATION DE L'INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

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 from a fiscal viewpoint. Its activities began in July 2003. Its mission consists in collecting funds in order to support the Institut's students through bursaries and to 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 certain otherwise available equipment and offered it administrative support services considered minor by management.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

15. FONDATION DE L'INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC (cont'd)

Further, during the fiscal year, the Institut invoiced the Fondation for products and services in the amount of \$15 951, \$7 176 of which are included in accounts receivable at June 30, 2005. Finally, the Institut granted the Fondation a loan of \$75 000.

	<u>2005</u>	<u>2004</u>
Unguaranteed loan, interest-free, repayable in annual instalments of \$25 000 and maturing in 2008	\$75 000	
Encashment maturing in over one year included in accounts payable	<u>(25 000)</u>	
	<u>\$50 000</u>	

16. RELATED PARTY TRANSACTIONS

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

17. COMPARATIVE FIGURES

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

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de tourisme et d'hôtellerie were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends their approval to the board of directors.

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

Lucille Daoust
Director General

Julien Girard, CGA, MAP
Head of Financial Resources
and Procurement

Montréal, September 12, 2005

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, 2005 and the statements of revenues, expenses and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at June 30, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 12, 2005

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC
(R.S.Q., c. I-13.1.1)

REVENUES
for the year ended March 31, 2006

	2006			2005		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
REVENUES						
Gouvernement du Québec subsidies	\$27 471 794	\$11 685 777	\$39 157 571	\$25 106 700	\$11 901 616	\$37 008 316
Government of Canada subsidies	1 200	1 101 781	1 102 981		1 139 414	1 139 414
Sales of services	981 841	2 231 743	3 213 584	611 345	1 363 605	1 974 950
Other revenue	89 794	1 522 748	1 612 542	52 431	868 781	921 212
Amortization of deferred contributions related to fixed assets		1 065 827	1 065 827	188 945	767 263	956 208
Special Gouvernement du Québec contribution				346 527		346 527
Gain on disposal of fixed assets	16 200		16 200			
Interest	46 857	403 694	450 551	23 829	214 462	238 291
Amounts carried forward	\$28 607 686	\$18 011 570	\$46 619 256	\$26 329 777	\$16 255 141	\$42 584 918

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

REVENUES (cont'd)
for the year ended March 31, 2006

	2006			2005		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
Amounts brought forward	\$28 607 686	\$18 011 570	\$46 619 256	\$26 329 777	\$16 255 141	\$42 584 918
EXPENSES						
Salaries and fringe benefits (Note 4)	17 583 214	7 658 793	25 242 007	15 212 564	6 149 161	21 361 725
Professional and administrative services	1 861 280	3 019 544	4 880 824	755 146	3 277 102	4 032 248
Medical and laboratory supplies	1 594 142	2 231 278	3 825 420	1 494 532	2 196 777	3 691 309
Premises	4 183 237	974	4 184 211	3 525 426	1 551	3 526 977
Amortization of fixed assets	1 376 696	822 484	2 199 180	1 496 099	657 080	2 153 179
Amortization of intangible assets	36 068	243 343	279 411	11 649	110 183	121 832
Travel expenses	544 398	452 569	996 967	442 636	708 990	1 151 626
Contribution to operating expenses of the national public health component of the health and social services network				1 469 980		1 469 980
Interest on long-term debt	596 530		596 530	620 147		620 147
Office expenses	398 456	197 104	595 560	317 030	141 333	458 363
Stationery and printing	123 694	363 662	487 356	112 557	288 826	401 383
Committee operation expenses	53 489	33 206	86 695	31 860	20 794	52 654
Maintenance and repairs	333 008	171 593	504 601	264 053	48 255	312 308
Outside training organization expenses	15 199	349 501	364 700	5 211	268 586	273 797
In-house training	177 802	65 357	243 159	227 384	45 817	273 201
Telecommunications	264 988	17 841	282 829	249 830	11 181	261 011
Documentation	145 933	18 435	164 368	110 486	13 877	124 363
Automotive equipment	47 249	29 548	76 797	59 353	28 925	88 278
Equipment rental	81 005	59 508	140 513	60 185	15 843	76 028
Insurance	14 307	23 657	37 964	14 417	24 000	38 417
Bank charges	12 657		12 657	10 881		10 881
General expenses (Note 5)	(650 000)	650 000		(453 700)	453 700	
	28 793 352	16 408 397	45 201 749	26 037 726	14 461 981	40 499 707
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	\$(185 666)	\$1 603 173	\$1 417 507	\$292 051	\$1 793 160	\$2 085 211

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

SURPLUS

for the year ended March 31, 2006

	2006			2005
	Regular activities	Special projects	Total	Total
UNAPPROPRIATED SURPLUS				
Opening balance	\$388 495		\$388 495	\$302 077
Surplus (insufficient) revenues over expenses	(103 731)	1 655 787	1 552 056	2 115 215
Transfer to the appropriated surplus		(1 611 516)	(1 611 516)	(2 028 797)
Closing balance	284 764	44 271	329 035	388 495
APPROPRIATED SURPLUS				
Opening balance	205 633	1 793 160	1 998 793	
Expenses for the fiscal year related to the appropriated surplus	(81 935)	(52 614)	(134 549)	(30 004)
Transfer of unappropriated surplus	1 346 000	265 516	1 611 516	2 028 797
Closing balance (Note 3)	1 469 698	2 006 062	3 475 760	1 998 793
TOTAL	<u>\$1 754 462</u>	<u>\$2 050 333</u>	<u>\$3 804 795</u>	<u>\$2 387 288</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$14 360 038	\$12 303 051
Accounts receivable (Note 6)	1 509 133	963 007
Subsidies receivable (Note 7)	15 265 395	14 829 547
Long-term receivable (Note 8)		74 787
Prepaid expenses	602 167	524 147
Supply stock - at cost	139 561	137 673
	<u>31 876 294</u>	<u>28 832 212</u>
Subsidies receivable (Note 7)	5 770 209	441 100
Long-term receivable (Note 8)		159 247
Fixed assets (Note 9)	16 146 925	14 568 972
Intangible assets (Note 10)	585 108	611 445
	<u>\$54 378 536</u>	<u>\$44 612 976</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 11)	\$7 615 330	\$6 243 298
Long-term debt maturing in the coming fiscal year (Note 12)	1 926 966	2 584 558
	<u>9 542 296</u>	<u>8 827 856</u>
Deferred proceeds	26 934 226	20 391 416
Long-term debt (Note 12)	8 297 011	8 861 593
Provision for sick leave (Note 14)	627 822	598 673
Deferred contributions related to fixed assets	5 172 386	3 546 150
	<u>50 573 741</u>	<u>42 225 688</u>
SURPLUS		
Unappropriated surplus	329 035	388 495
Appropriated surplus	3 475 760	1 998 793
	<u>3 804 795</u>	<u>2 387 288</u>
	<u>\$54 378 536</u>	<u>\$44 612 976</u>

COMMITMENT (Note 16)

The notes are an integral part of the financial statements.

Richard Massé
Nicolas Steinmetz

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

CASH FLOW
for the year ended March 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Surplus revenues over expenses	\$1 417 507	\$2 085 211
Adjustments for:		
Amortization of fixed assets	2 199 180	2 153 179
Amortization of intangible assets	279 411	121 832
Amortization of deferred contributions related to fixed assets	(1 065 827)	(956 208)
Gain on disposal of fixed assets	(16 200)	(11 000)
	<u>2 814 071</u>	<u>3 393 014</u>
Change in non-cash elements related to operations		
Increase in accounts receivable	(546 126)	(294 158)
Increase in prepaid expenses	(78 020)	(99 642)
Decrease (increase) in supply stocks	(1 888)	8 235
Increase in subsidies receivable	(5 764 957)	(4 350 727)
Increase in accounts payable and accruals (Note 11)	414 214	2 123 431
Increase in provision for sick leave	29 149	58 366
Increase in deferred proceeds	6 542 810	5 025 194
	<u>595 182</u>	<u>2 470 699</u>
Cash flows provided by operating activities	<u>3 409 253</u>	<u>5 863 713</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets (Note 9)	(2 831 757)	(1 075 769)
Proceeds from disposal of fixed assets	16 200	11 000
Acquisition of intangible assets (Note 10)	(240 632)	(733 277)
Long-term receivable	234 034	225 627
Cash flows used for investment activities	<u>(2 822 155)</u>	<u>(1 572 419)</u>
FINANCING ACTIVITIES		
Repayment of the long-term debt	(1 222 174)	(923 756)
Long-term debt		635 000
Deferred contributions related to fixed assets	2 692 063	963 156
Cash flows provided by financing activities	<u>1 469 889</u>	<u>674 400</u>
INCREASE OF CASH ON HAND	2 056 987	4 965 694
CASH ON HAND, BEGINNING OF YEAR	<u>12 303 051</u>	<u>7 337 357</u>
CASH ON HAND, END OF YEAR	<u>\$14 360 038</u>	<u>\$12 303 051</u>
ADDITIONAL INFORMATION		
Interest paid	<u>\$596 530</u>	<u>\$620 148</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, 2006

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 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed and intangible assets

Fixed and intangible assets are recorded at cost and depreciated over their service lives on a straight-line basis at the following rates:

Specialized equipment	10 to 20%
Computer equipment	20 to 33 1/3%
Software and licences	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 using the annuity method (growing endowment) at the corresponding debt rate.

Recording proceeds

Subsidies related to special projects are recorded to results based on the posting of the related charges. Certain subsidies receivable are conditional on approval of the funds by the government.

Proceeds from service delivery are recorded 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 proceeds comprise the amounts received and receivable for services not rendered in keeping with contractual agreements.

Deferred contributions related to fixed assets

Contributions received for acquisition or in the form of amortizable fixed assets are deferred and transferred to proceeds using the same method and rates as those used to amortize the fixed assets to which they refer.

Pension plans

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

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. APPROPRIATED SURPLUS**

The appropriated surplus comprises the appropriated surplus to regular activities and the appropriated surplus to special projects.

As regards, the appropriated 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 surplus to acquire specialized laboratory equipment and to physically organize new offices in downtown following authorization obtained from the Québec Minister of Health and Social Services. The balance of the appropriated surplus at March 31, 2006 in the amount of \$1 469 698 will be used to help finance these immoveables.

The appropriated surplus for special projects in the amount of \$2 006 062 at March 31, 2006 will be used, in keeping with the policy adopted by its 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

The general expenses charged to special projects and as recovery for regular activities represent an estimate of the value of the charges for support services offered in the context of the Institut's different special projects.

6. ACCOUNTS RECEIVABLE

	2006	2005
Gouvernement du Québec	\$431 652	\$251 969
Government of Canada	68 855	
Other	1 008 626	711 038
	<u>\$1 509 133</u>	<u>\$963 007</u>

7. SUBSIDIES RECEIVABLE

	2006	2005
Gouvernement du Québec	\$14 188 164	\$13 510 950
Government of Canada	5 202 596	1 267 410
Other	1 644 844	492 287
	<u>21 035 604</u>	<u>15 270 647</u>
Less: portion maturing in the coming fiscal year		
Gouvernement du Québec	(12 117 545)	(13 069 850)
Government of Canada	(2 202 596)	(1 267 410)
Other	(945 254)	(492 287)
	<u>(15 265 395)</u>	<u>(14 829 547)</u>
	<u>\$5 770 209</u>	<u>\$441 100</u>

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006**8. LONG-TERM RECEIVABLE**

Under a mandate conferred on it by the Ministère de la Santé et des Services sociaux du Québec for the acquisition and operation of a mobile mammogram breast cancer-detection unit, the Institut had a long-term receivable. During the fiscal year, the Institut encashed the entire receivable.

	2006	2005
Long-term receivable		\$234 034
Less: portion maturing in the coming fiscal year		(74 787)
		<u>\$159 247</u>

9. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Major fit-up	\$10 497 145	\$1 635 552	\$8 861 593
Specialized equipment	6 378 814	2 594 908	3 783 906
Computer equipment	4 664 587	2 920 642	1 743 945
Automotive equipment	1 242 481	403 023	839 458
Furnishings and equipment	1 974 327	1 149 954	824 373
Leasehold improvements	261 001	167 351	93 650
	<u>\$25 018 355</u>	<u>\$8 871 430</u>	<u>\$16 146 925</u>
			<u>\$14 568 972</u>

Acquisitions totalled \$3 777 133 (2005: \$1 841 065), of which \$2 634 967 (2005: \$1 644 276) was disbursed during the fiscal year. An amount of \$196 790 (2005: \$164 770) was disbursed during the year for acquisitions dating from the previous fiscal year.

10. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Software and licences	<u>\$986 351</u>	<u>\$401 243</u>	<u>\$585 108</u>
			<u>\$611 445</u>

Acquisitions totalled \$253 074 (2005: \$733 277), of which \$240 632 (2005: \$733 277) was disbursed during the fiscal year

11. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Gouvernement du Québec	\$1 308 839	\$2 116 592
Other	6 306 491	4 126 706
	<u>\$7 615 330</u>	<u>\$6 243 298</u>

Accounts payable and accrued operating costs total \$6 460 722 (2005: \$6 046 508), costs linked to the acquisition of fixed assets are \$1 142 166 (2005: \$196 790) and those linked to the acquisition of intangible assets totalled \$12 442 \$ (2005: \$0).

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. LONG-TERM DEBT**

	<u>2006</u>	<u>2005</u>
Borrowings on notes		
fixed rate of 5.05% (3.88% in 2005), repayable in monthly instalments of \$25 850 including principal and interest, maturing in 2007	\$861 679	\$1 127 008
fixed rate of 3.95% (3.65% in 2005), repayable in monthly instalments of \$8 689 including principal and interest, maturing in 2006.	500 705	581 260
Repaid during the fiscal year		343 811
Borrowings from the Société immobilière du Québec		
fixed rate of 6.08% (6.08% in 2005), repayable in monthly instalments of \$52 582 including principal and interest, maturing in 2018	5 141 563	5 449 702
fixed rate of 6.08% (6.08% in 2005), repayable in monthly instalments of \$2 128 including principal and interest, maturing in 2008	30 663	53 574
fixed rate of 5.52% (5.52 % in 2005), repayable in monthly instalments of \$34 263 including principal and interest, maturing in 2019	<u>3 689 367</u> 10 223 977	<u>3 890 796</u> 11 446 151
Less: portion maturing in the coming fiscal year	<u>(1 926 966)</u>	<u>(2 584 558)</u>
	<u><u>\$8 297 011</u></u>	<u><u>\$8 861 593</u></u>

The amounts of principal to be paid on the long-term debt over the coming five years breaks down as follows:

2007	\$1 926 966
2008	579 079
2009	607 242
2010	643 806
2011	682 576
2012 and thereafter	5 784 308

13. RELATED PARTY TRANSACTIONS

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

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. FUTURE FRINGE BENEFITS

Pension plans

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

The Institut's contributions charged to the year-end statement amount to \$1 028 601 (2005: \$660 544). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Opening balance	\$598 673	\$540 307
Charge for the year	674 121	407 394
Benefits paid during the year	(644 972)	(349 028)
Closing balance	<u>\$627 822</u>	<u>\$598 673</u>

The provision for vacation time in the amount of \$1 999 887 (2005: \$1 732 690) is included in the item receivables and accrued expenses.

15. FINANCIAL INSTRUMENTS

Long-term debt

At March 31, 2006, the fair value of borrowings from the Société immobilière du Québec of \$8 861 593 was \$9 408 776, given the capitalization of cash flows at market rates for securities with similar terms and interest rates. The fair value of notes is equivalent to the book value, given the fact that they mature in the near future and that the interest rate has varied little since the inception of these debts.

Other assets and liabilities

The fair value of cash, receivables, long-term debt, payables and accrued expenses is equal to their book value, given that they mature in the near future. The fair value of subsidies receivable of \$21 035 604 cannot be evaluated given the absence of a market for this type of financial instrument.

16. COMMITMENT

At March 31, 2006, the Institut was committed to the Société immobilière du Québec for the relocation of two of its facilities to a single location. In June, two proposals for borrowings to cover outfitting work were negotiated for a total of \$1 202 416. These borrowings bear interest at a rate of 4.70% and would mature in 2014. They are repayable as of June 2006.

17. 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.

18. COMPARATIVE FIGURES

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

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut national de santé publique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

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

Richard Massé, M.D.
President and Chief Executive Officer

Jean-Louis Coulombe, CMA
Director of Financial and Material Resources

Québec, June 22, 2006

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, 2006 and the revenues and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 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, June 22, 2006

INVESTISSEMENT QUÉBEC
(R.S.Q., c. I-16.1)

CONSOLIDATED STATEMENT OF INCOME
for the fiscal year ended March 31,
(in thousands of dollars)

	2006	2005	2004
INCOME FROM OPERATIONS			
Interest income (Note 15)	155 894	121 105	97 354
Guarantee fees	19 696	14 636	12 525
Risk premiums			
Stock options (Note 16)	3 523	2 409	4 150
Share-in-earnings and lump-sum premiums	4 862	3 814	3 055
Commitment fees	12 151	6 613	7 666
Other income (Note 17)	144 405	26 984	4 868
	<u>340 531</u>	<u>175 561</u>	<u>129 618</u>
EXPENSES FROM OPERATIONS			
Interest charges (Note 18)	38 716	35 777	36 440
Financial contributions (Note 19)	62 628	52 633	56 137
Financial contributions assumed by the Government of Québec (Note 19)	(25 162)	(31 665)	(45 382)
Fees to financial intermediaries	32 650	26 464	17 747
Other expenses (Note 20)	3 891	2 986	1 972
	<u>112 723</u>	<u>86 195</u>	<u>66 914</u>
OPERATING INCOME BEFORE PROVISION	<u>227 808</u>	<u>89 366</u>	<u>62 704</u>
Provision			
Provision for losses (Note 10)	235 888	165 742	273 023
Provision for losses recoverable from the Government of Québec (Note 10)	(228 234)	(146 542)	(265 415)
	<u>7 654</u>	<u>19 200</u>	<u>7 608</u>
OPERATING INCOME	<u>220 154</u>	<u>70 166</u>	<u>55 096</u>
Administrative expenses			
Administrative expenses (Note 21)	43 350	40 276	40 589
Administration fees – Government of Québec		(21 946)	(26 811)
	<u>43 350</u>	<u>18 330</u>	<u>13 778</u>
NET INCOME	<u>176 804</u>	<u>51 836</u>	<u>41 318</u>

The notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the fiscal year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
RETAINED EARNINGS AT THE BEGINNING	246 120	194 284
NET INCOME	<u>176 804</u>	<u>51 836</u>
RESTATED SURPLUS AT THE END	<u>422 924</u>	<u>246 120</u>

The notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31,
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Temporary investments (Note 4)	9 608	9 588
Investments (Note 5)	2 285 867	1 731 246
Loans, less accumulated provision for losses (Notes 6 and 10)	737 395	744 925
Shares, less accumulated provision for losses (Notes 7 and 10)	303 739	333 011
Units, less accumulated provision for losses (Notes 8 and 10)	2 464	2 744
Accumulated provision for losses recoverable from the Government of Québec (Note 10)	736 154	558 956
Other assets (Note 11)	<u>109 370</u>	<u>136 861</u>
	<u>4 184 597</u>	<u>3 517 331</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Outstanding cheques less cash		904
Overdraft	5 941	
Short-term debt (Note 12)	101 900	235 900
Long-term debt (Note 13)	3 351 955	2 810 017
Due and accrued interest on loans from the Fonds de financement du gouvernement du Québec	15 374	12 564
Accumulated provision for losses on guarantees (Notes 9 and 10)	229 377	156 526
Other liabilities (Note 14)	<u>24 182</u>	<u>22 356</u>
	<u>3 728 729</u>	<u>3 238 267</u>
EQUITY		
Initial equity	32 944	32 944
Retained earnings	<u>422 924</u>	<u>246 120</u>
	<u>455 868</u>	<u>279 064</u>
	<u>4 184 597</u>	<u>3 517 331</u>
GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (Notes 9 and 10)	<u>2 152 918</u>	<u>1 570 655</u>

FINANCING AND INVESTMENT COMMITMENTS (Note 27)

OTHER COMMITMENTS (Note 28)

CONTINGENCIES (Note 31)

The notes form an integral part of the financial statements.

For the Board of Directors,
André Côté, Chairman of the Board
Léopold Beaulieu, Vice-Chairman of the Board

INVESTISSEMENT QUÉBEC

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

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	176 804	51 836	41 318
Adjustments for:			
Amortization of issuance expenses on long-term debt	719	713	460
Amortization of discounts and premiums on long-term debt	(1 129)	(1 129)	(1 109)
Amortization of discounts and premiums on investments	(77 310)	(52 712)	(30 373)
Amortization of deferred fees to financial intermediaries	24 509	16 969	9 876
Gain on disposal of shares and units	(136 437)	(17 173)	(508)
Gain on disposal of investments	(1 165)	(887)	(504)
Unrealized depreciation in value of investments	515		
Unrealized foreign exchange loss on investments	284	629	
Unrealized loss resulting from change in the fair value of stock options	5 973	25	
Transfer of deferred income			(192)
Provision for losses	235 888	165 742	273 023
Provision for losses recoverable from the Government of Québec	(228 234)	(146 542)	(265 415)
Amortization of tangible assets and limited-life intangible assets	800	859	1 921
Loss on disposal of tangible assets and limited-life intangible assets		208	
Share of income – Affiliated company, Canadair Québec Capital S.E.N.C.	9		20
	1 226	18 538	28 517
Changes in non-cash items related to operating activities (Note 22)	25 071	(51 843)	(12 865)
	26 297	(33 305)	15 652
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Net decrease (increase) of temporary investments with a maturity of over three months following the acquisition date	397	(397)	69 083
Acquisition of investments	(584 410)	(740 816)	(600 019)
Disposal of investments	107 456	100 916	30 524
Net decrease (increase) of loans	(86 260)	7 968	(146 283)
Net decrease (increase) of shares	160 861	11 395	(300 076)
Net decrease (increase) of units	88	21 327	(236)
Premiums on derivative financial instruments	(5 386)		
Acquisition of tangible assets and limited-life intangible assets	(673)	(688)	(572)
Deferred fees to financial intermediaries	(32 057)	(37 872)	(31 362)
	(439 984)	(638 167)	(978 941)
Amounts carried forward	(413 687)	(671 472)	(963 289)

INVESTISSEMENT QUÉBEC

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

	2006	2005	2004
Amounts brought forward	(413 687)	(671 472)	(963 289)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease of short-term debt	(134 000)	(135 000)	(28 700)
Long-term debt	567 067	821 200	1 140 820
Repayment of long-term debt	(24 000)	(13 200)	(140 916)
Deferred issuance expenses on long-term debt		(700)	(4 099)
	409 067	672 300	967 105
NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	(4 620)	828	3 816
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8 287	7 459	3 643
CASH AND CASH EQUIVALENTS AT END OF YEAR	3 667	8 287	7 459
CASH AND CASH EQUIVALENTS			
Cash			2 469
Temporary investments with a maturity not exceeding three months following the acquisition date	9 608	9 191	4 990
Outstanding cheques less cash		(904)	
Overdraft	(5 941)		
	3 667	8 287	7 459
ADDITIONAL INFORMATION			
Interest paid	36 343	35 901	30 156

The notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a public law legal entity incorporated and governed under the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1). Under section 2 of its incorporating act, the Corporation is an agent of the state and, as such, is not subject to the income taxes of Québec or of Canada.

Investissement Québec's mission is to promote investment growth in Québec, thereby contributing to the economic development of Québec and to job creation. The corporation centralizes and consolidates government action in research, promotion and support for investment. It strives not only to stimulate domestic investment, but also to attract outside investors by promoting Québec as an excellent place for investment. Investissement Québec participates in the growth of businesses by facilitating research and development as well as exports. By lending its support to companies already established here, the Corporation works to retain current investment in Québec. It can also offer companies and government departments, agencies and corporations a variety of technical services, particularly in the fields of financial analysis, credit arrangement and portfolio management. Investissement Québec administers 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 fulfils any mandate assigned to it by the Government under sections 28 and 29 of its incorporating statute. It uses its financing operations to support Québec companies or companies that are setting up operations in Québec, mainly by granting them loans or guaranteeing the financial commitments they make to financial institutions. It also administers the financial assistance programs stemming from the Act respecting assistance for the development of cooperatives and non-profit legal persons (R.S.Q., c. A-12.1).

Under Bill 68, approved by the National Assembly on December 13, 2005, Investissement Québec has 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.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a business plan, which includes the activities of its subsidiaries, according to the form, content and frequency determined by the Government of Québec. This plan was approved on September 22, 2004 (decree 878-2004) and ends on March 31, 2007. The plan provides that the Government of Québec contribute to the Corporation's financing through the reimbursement of most financial contributions and of losses on certain financing operations, according to the terms and conditions of the programs or decrees under which they were set up, by paying it a contribution in the form of interest on certain financing operations for which it refunds losses and by paying it fees.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles. As such, Management is required to make estimates and assumptions that 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 the 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.

Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, cash on hand, temporary investments maturing no later than three months following their acquisition date, as well as outstanding cheques less cash or bank overdraft, as is the case.

Investments

Notes receivable from the Government of Québec are carried at cost and discounts on acquisition of investments are charged to the statement of income according to the real –interest method until maturity.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments (cont'd)

Shares in limited partnerships and interest in unlisted shares in general partnerships are accounted for at fair value. Pursuant to certain contractual agreements, if the total of net annual income less the total of net annual losses is positive at the end of the performance waiver period of each agreement, the Corporation waives its co-payment. 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 shares 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, they also hold a purchase option at a price equal to the higher of the market value or the book value.

Investments in affiliated companies are accounted for under the equity method.

Other investments are carried at cost and, if necessary, discounts and premiums on acquisition of investments are charged to the statement of income according to the straight-line method and 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 doubtful. The decrease in the book value then recorded and any subsequent changes are applied to the provision for losses.

When a loan for which losses are not refunded by the Government of Québec becomes doubtful and the borrower owes more than three months' interest, the interest ceases to be recognized. The interest received on such loans is recorded as a recovery up to the amount written off or for which a provision has been entered, and is subsequently recorded as interest income.

Foreclosed assets are considered to be doubtful loans and are recorded at their fair value at the time of foreclosure. The decrease in the book value is then recorded. Any subsequent decrease is applied to the provision for losses.

The book value of loans for which losses are not refunded 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 decrease in the book value 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 refunded by the Government of Québec are recorded at their book value immediately after the loans have been restructured. The difference between the book value of a loan prior to restructuring and the book value of the resulting shares is applied to the provision for losses. Any subsequent decrease in the book value of the shares is also applied to the provision for losses. Any subsequent increase is recorded only upon the sale of the shares, as a gain on the disposal of shares during the current year.

Guarantees

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once they have been approved by the Corporation. Disbursements are then applied to reduce the accumulated provision for losses on guarantees and the guarantees balance is reduced accordingly.

When the Corporation considers that there is reasonable assurance that a loan will be repaid, these disbursements are recorded as assets in accordance with the accounting policies applicable to loans, shares and units.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Accumulated Provision for Losses**

The accumulated provision for losses on loans, shares, units and other receivables related to financing operations is shown on the Corporation's balance sheet, offset against the value of its assets. The accumulated provision for losses on loan guarantees is shown as a liability on the balance sheet. According to the Corporation, these provisions represent the most accurate 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 is insolvent clients, while two others refer to companies that are likely to become insolvent in the short term. All doubtful loans are found in one of these categories. The provision for losses on financing operations included in these three categories corresponds to the balance of each operation, less the estimated realizable value of securities, to which a percentage adjustment is applied based on loan collection experience for the companies in these categories. When a company assigned to either category is winding up, has ceased repaying the Corporation and is unlikely to put its finances in order, the related financing operations are written off.

The four other risk categories comprise companies whose financial profile corresponds to that of the Corporation's target clientele. A group provision is calculated for each of these categories by applying a provision rate to the balance of the financing operations. The provision rate for each category is based on a statistical analysis of the number of companies that have been downgraded and the size of the losses recorded or deemed probable over a given previous period.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or present specific characteristics are subject to a specific provision for losses analysis, regardless of their risk category.

A global provision is calculated for business start-up and re-start investment programs. This provision corresponds to the amount of authorized guarantees to which a rate based on past experience is applied, less disbursements in respect of loan guarantees under these programs.

Certain loans may be forgiven according to the conditions set out in the loan agreement. The provision for losses on these loans takes into account the insolvency risks mentioned above and the inherent risk in the loan agreement.

Special class shares are non-participating shares, with no dividends and no redemption date. These shares are subject to a specific provision for losses analysis.

Other accounts receivable associated with the financial operations of insolvent companies or companies in which insolvency appears likely within the short terms are subject to a specific provision for losses analysis.

Receivable from the Government of Québec

The Government of Québec contributes to the Corporation's financing by reimbursing most 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, 2006

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Tangible Assets

Tangible assets are carried at cost. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

Computer equipment	33 1/3%
Office furniture	10%
Leasehold improvement	10%

Limited-Life Intangible Assets

Software and information systems development are carried at cost. They are subjected to an amortization test if events or changes indicate that it may not be possible to recover their book value. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

Software	33 1/3%
Information systems development	20%

Issuance Expenses, Long-Term Debt Discounts and Premiums

Issuance expenses, long-term debt discounts and premiums are deferred and amortized over the term of the related loan using the straight-line method. Deferred issuance expenses on long-term debt are included in other assets. Deferred discounts and premiums are presented as a deduction from or addition to the loans with which they are associated.

Land Held for Decontamination Purposes

Land is valued at cost or the net realizable value, whichever is lower.

Risk Premiums

When approving a financing operation, the Corporation generally requires a risk premium from the client company. The stock option premium, which is a derivative financial instrument, is accounted for at fair value. The share-in-earnings premium is payable and recorded no later than six months after the end of the company's fiscal year. The lump-sum premium is recorded when due according to the contract.

Stock options with a positive fair value are listed under the "Other Assets" heading.

Gains on the disposal of shares acquired following the exercise of an option are shown under the heading "Risk Premiums – Stock Options" heading in the Corporation's statement of income.

Financial Contributions

Financial contributions are made up of non-refundable financial contributions and conditional-refund financial contributions.

Financial contributions are charged to the statement of income for the fiscal year in which the Corporation approved the payment. The corresponding contribution from the Government of Québec for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recorded in the same fiscal year.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial Contributions (cont'd)**

Subsequent recoveries of conditional-refund financial contributions are charged to the statement of income for the current fiscal year. The applicable Government of Québec refund is also recorded in the statement of income for the current fiscal year.

Financial contributions to Emploi-Québec under the “Employment Integration Program for Immigrants and Visible Minorities” (PRIME) are charged to the statement of income for the fiscal year in which Emploi-Québec submitted the claim to the Corporation.

Fees Paid to Financial Intermediaries

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for canvassing immigrant investors, for finding companies to recommend for a non-refundable financial contribution, and for closing immigrant investors' files.

Fees paid for the solicitation of an immigrant investor and fees paid for finding a company to recommend are recorded once the company has accepted the financing operation. Fees paid for the solicitation of an immigrant investor are deferred and charged to the statement of income for the duration of the corresponding investment (five years), according to the straight-line method of amortization. Fees for closing an immigrant investor's file are recorded on the date the file is closed.

Financial Derivative Instruments

In addition to stock options that are included in risk premiums, the Corporation holds financial derivative instruments for the purpose of managing the interest rate risk and the exchange rate risk stemming from positions appearing in the balance sheet. These financial instruments are recorded at fair value and resulting gains or losses are applied to income, as an adjustment to other income. Derivative financial instruments with a positive fair value appear under assets, while those with a negative fair value appear in liabilities. The former appear under the “Assets related to derivative financial instruments” item within the “Other Assets” category and the latter appear under the “Liabilities related to derivative financial instruments” item within the “Other Liabilities” category.

Currency Translation

Monetary assets and liabilities and guarantees expressed in foreign currency are translated into Canadian dollars at the rate applicable on the date of the balance sheet. Income and expenses denominated in foreign currency are, for their part, translated into Canadian dollars at the prevailing exchange rate on the transaction date. Exchange gains and losses are recorded in the statement of income.

Pension Plans

The Corporation contributes to government multi-employer defined-benefit pension plans. However, these contributions are reported according to accounting policies pertaining to defined contribution plans, since the Corporation's obligations toward these government plans are limited to its contributions as an employer.

The Corporation also instituted an optional supplementary pension plan so that it could pay retirement benefits to certain members of senior management, in addition to those paid under the basic pension plan. The cost of the retirement benefits accumulated by these employees is established through actuarial calculations based on the defined-benefit method according to years of service, using management's most probable assumptions regarding the expected return on plan investments, salary increases and employer retirement age.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

3. CHANGE IN ACCOUNTING POLICIES

Recent Accounting Policies Adopted by the Corporation

Consolidation of Variable Interest Entities

On April 1, 2005, Investissement Québec adopted Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, issued by the Canadian Institute of Chartered Accountants. This Guideline applies to periods that began on or after November 1, 2004. AcG-15 defines a variable interest entity (VIE) as an entity whose equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support from a third party, or an entity whose investors, as a group, do not have the power to make decisions about the entity's activities or are not obliged to absorb the expected losses or the right to receive expected residual returns, if they occur. Under AcG-15, a VIE must be consolidated by its primary beneficiary, that is, the entity that assumes the expected losses and/or the possibility of receiving the principal residual returns. AcG-15 also stipulates that certain information must be provided for VIEs that have not been consolidated but in which a company holds a significant variable right. The adoption of AcG-15 had no implications for the financial statements or on the Corporation's financial disclosure as at March 31, 2006.

Investment Companies

On April 1, 2005, Investissement Québec adopted Accounting Guideline AcG-18, Investment Companies, issued by the Canadian Institute of Chartered Accountants. This guideline applies to periods that began on or after July 1, 2004. Under this Guideline, investment companies are required to account for all investments at fair value, including investments that would otherwise be consolidated or accounted for using the equity method. The Guideline sets out the criteria for determining whether a company is an investment company and also provides guidance on the circumstances in which the parent company of, or equity method investor in, an investment company should account for the investment company's investments at fair value. Investissement Québec is the parent company of such an investment company: IQ FIER inc. Investissement Québec complies with the criteria for preserving fair value accounting treatments of investments that was adopted by IQ FIER inc.

Recent Accounting Policies to be Adopted by the Corporation

Financial Instruments

The Canadian Institute of Chartered Accountants published three new accounting standards in 2005. They were Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges and Section 1530, Comprehensive Income. These standards must be applied by Investissement Québec no later than April 1, 2007. The main implications of these standards are described below.

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 investments held to maturity, loans, debts and other financial liabilities or financial assets that are available for sale. Financial assets and liabilities held for trading must be valued at their fair values, while gains and losses are included in income. Investments held to maturity, loans, debts and other financial liabilities must be valued at their unamortized costs. Financial assets available for sale must be valued at their fair value and the resulting unrealized gains and losses must be included in other comprehensive income items. The policy also permits opting to classify any financial instrument as an instrument held for transaction purposes at the time it is initially recorded.

Hedges

This new standard defines criteria for applying hedging for each permitted hedging strategy: fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars unless otherwise indicated)

3. CHANGE IN ACCOUNTING POLICIES (cont'd)**Recent Accounting Policies Adopted by the Corporation (cont'd)***Financial Instruments (cont'd)*Comprehensive Income

Following the adoption of these standards, a new heading entitled "Other comprehensive income", must be added to equity in the consolidated balance sheet. The principal items falling under this heading include unrealized gains and losses on financial assets available for sales, unrealized amounts related to the translation of currencies, deductions for hedging operations resulting self-sustaining foreign operations and fair value variations in the actual portion of cash flow hedge instruments.

The Corporation is currently analysing how the application of these new standards will affect its financial statements.

4. TEMPORARY INVESTMENTS

	2006	2005
Temporary investments with a maturity not exceeding three months following the acquisition date:		
Bank acceptances, from 3.78% to 3.83%, maturing in April 2006	5 003	
Deposit certificates, from 3.70% to 3.75%, maturing in April 2006	4 605	7 699
Canada Treasury Bills		1 492
Canada Treasury Bills, with a maturity exceeding three months following the acquisition date		397
	<u>9 608</u>	<u>9 588</u>

5. INVESTMENTS

	2006	2005
Notes receivable from the Government of Québec, from 3.47% to 6.01%, maturing between April 2006 and March 2011, nominal value of \$2.3 billion	2 071 153	1 561 067
Bonds and other debt instruments, from 3.40% to 11.00%, maturing between November 2006 and March 2016, nominal value of \$99.3 million	103 766	102 335
Money market securities – mutual funds	34 969	34 539
Shares and other equity	35 574	33 021
Units of limited partnerships	40 331	197
Shares of companies acting as limited partners	(3)	1
Affiliated company, Canadair Québec Capital S.E.N.C., valued under the equity accounting method	77	86
	<u>2 285 867</u>	<u>1 731 246</u>

The amount of investments denominated in US dollars totalled \$10.3 million in Canadian dollars as at March 31, 2006 (\$8.6 million as at March 31, 2005).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

5. INVESTMENTS (cont'd)

The maturities of the investments, at nominal value, are as follows:

2007	188 774
2008	332 616
2009	528 987
2010	656 921
2011 and beyond	507 952
	<u>2 215 250</u>
No maturity	70 617
	<u>2 285 867</u>

6. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES

	2006			2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec	Total	Total
Loans				
Interest-bearing				
Fixed rate ⁽¹⁾	4 776	155 213	159 989	142 351
Variable rate ⁽²⁾	39 331	356 054	395 385	180 098
	<u>44 107</u>	<u>511 267</u>	<u>555 374</u>	<u>322 449</u>
Interest-free	89	394 518	394 607	414 047
Restructured	1 691		1 691	2 016
Doubtful	31 161	272 671	303 832	430 732
	<u>77 048</u>	<u>1 178 456</u>	<u>1 255 504</u>	<u>1 169 244</u>
Accumulated provision for losses				
Interest-bearing loans	(9 628)	(147 264)	(156 892)	(48 144)
Interest-free loans	(18)	(87 772)	(87 790)	(61 461)
Restructured loans	(1 331)		(1 331)	(1 382)
Doubtful loans	(25 434)	(246 662)	(272 096)	(313 332)
	<u>(36 411)</u>	<u>(481 698)</u>	<u>(518 109)</u>	<u>(424 319)</u>
	<u>40 637</u>	<u>696 758</u>	<u>737 395</u>	<u>744 925</u>

Anticipated cash receipts from loans, according to contractual provisions, are as follows:

Less than one year	19 460	148 875	168 335	148 821
From 1 to 2 years	13 315	58 864	72 179	149 703
From 2 to 3 years	9 062	64 666	73 728	98 401
From 3 to 4 years	9 266	77 583	86 849	99 372
From 4 to 5 years	7 269	150 297	157 566	106 496
From 5 to 10 years	18 456	436 629	455 085	426 327
From 10 to 20 years	220	182 712	182 932	140 124
More than 20 years		58 830	58 830	
	<u>77 048</u>	<u>1 178 456</u>	<u>1 255 504</u>	<u>1 169 244</u>

(1) Fixed interest rates ranged between 2.75% and 15.00% as at March 31, 2006 (between 2.75% and 12.00% as at March 31, 2005).

(2) The Corporation's variable interest rate was 7.00% as at March 31, 2006 (5.75% as at March 31, 2005).

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

7. SHARES, LESS ACCUMULATED PROVISION FOR LOSSES

	2006		2005	
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec	Total	Total
Shares				
Common	594	25 567	26 161	29 353
Preferred	1 444	326 265	327 709	347 536
Of a special class		5 018	5 018	5 972
Common shares from restructured loans	243		243	725
Preferred shares from restructured loans	458		458	427
	<u>2 739</u>	<u>356 850</u>	<u>359 589</u>	<u>384 013</u>
Accumulated provision for losses				
Common shares	(312)	(10 709)	(11 021)	(13 369)
Preferred shares	(1 114)	(38 049)	(39 163)	(30 740)
Special class of shares		(5 018)	(5 018)	(5 972)
Common shares from restructured loans	(227)		(227)	(580)
Preferred shares from restructured loans	(421)		(421)	(341)
	<u>(2 074)</u>	<u>(53 776)</u>	<u>(55 850)</u>	<u>(51 002)</u>
	<u>665</u>	<u>303 074</u>	<u>303 739</u>	<u>333 011</u>
Share redemption maturities are as follows:				
Less than one year	503	354	857	130
From 1 to 2 years	22	80	102	529
From 2 to 3 years	75	53	128	103
From 3 to 4 years	75	53	128	128
From 4 to 5 years	75	53	128	127
From 5 to 10 years	120	17 567	17 687	17 800
From 10 to 20 years		45 000	45 000	45 000
More than 20 years		260 000	260 000	260 000
	<u>870</u>	<u>323 160</u>	<u>324 030</u>	<u>323 817</u>
No maturity	<u>1 869</u>	<u>33 690</u>	<u>35 559</u>	<u>60 196</u>
	<u>2 739</u>	<u>356 850</u>	<u>359 589</u>	<u>384 013</u>

The Corporation holds shares issued by public companies. The net book value of these shares as at March 31, 2006 was \$3.1 million (\$5.1 million as at March 31, 2005). According to stock market quotations as at March 31, 2006, these shares had a value of \$3.5 million (\$6.0 million as at March 31, 2005).

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.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
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8. UNITS, LESS ACCUMULATED PROVISION FOR LOSSES

	2006			2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec	Total	Total
Units				
Preferred of cooperatives	395	2 484	2 879	3 014
Of a limited partnership		11 639	11 639	11 639
Preferred of cooperatives from restructured loans	1 031		1 031	984
	<u>1 426</u>	<u>14 123</u>	<u>15 549</u>	<u>15 637</u>
Accumulated provision for losses				
Preferred units of cooperatives	(320)	(889)	(1 209)	(988)
Units of a limited partnership		(11 639)	(11 639)	(11 639)
Preferred units of cooperatives from restructured loans	(237)		(237)	(266)
	<u>(557)</u>	<u>(12 528)</u>	<u>(13 085)</u>	<u>(12 893)</u>
	<u>869</u>	<u>1 595</u>	<u>2 464</u>	<u>2 744</u>
Unit redemption maturities are as follows:				
Less than one year		71	71	304
From 1 to 2 years		78	78	31
From 2 to 3 years		78	78	38
From 3 to 4 years		78	78	38
From 4 to 5 years		78	78	38
From 5 to 10 years	670	484	1 154	964
From 10 to 20 years	361	337	698	344
More than 20 years		514	514	
	<u>1 031</u>	<u>1 718</u>	<u>2 749</u>	<u>1 757</u>
No maturity	<u>395</u>	<u>12 405</u>	<u>12 800</u>	<u>13 880</u>
	<u>1 426</u>	<u>14 123</u>	<u>15 549</u>	<u>15 637</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars unless otherwise indicated)

9. GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES

	2006			2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec	Total	Total
Guarantees				
Loans	196 050	278 413	474 463	503 609
Financial commitment	37 794	1 870 038	1 907 832	1 223 572
	<u>233 844</u>	<u>2 148 451</u>	<u>2 382 295</u>	<u>1 727 181</u>
Accumulated provision for losses				
Loan guarantees	(34 542)	(48 802)	(83 344)	(99 927)
Financial commitment guarantees	<u>(7 797)</u>	<u>(138 236)</u>	<u>(146 033)</u>	<u>(56 599)</u>
	<u>(42 339)</u>	<u>(187 038)</u>	<u>(229 377)</u>	<u>(156 526)</u>
	<u>191 505</u>	<u>1 961 413</u>	<u>2 152 918</u>	<u>1 570 655</u>
Loan guarantee balance broken down according to maturity:				
Less than one year	39 298	38 604	77 902	95 284
From 1 to 2 years	19 179	18 277	37 456	39 299
From 2 to 3 years	20 389	13 853	34 242	19 604
From 3 to 4 years	21 370	12 663	34 033	43 272
From 4 to 5 years	33 505	49 773	83 278	43 926
From 5 to 10 years	97 906	162 560	260 466	293 884
From 10 to 20 years	<u>2 197</u>	<u>1 852 721</u>	<u>1 854 918</u>	<u>1 191 912</u>
	<u>233 844</u>	<u>2 148 451</u>	<u>2 382 295</u>	<u>1 727 181</u>

The amount of guarantees denominated in US dollars totalled \$1.9 billion in Canadian dollars as at March 31, 2006 (\$1.2 billion as at March 31, 2005) and the amount of guarantees denominated in other currencies stood at \$24.6 million in Canadian dollars as at March 31, 2006 (\$39.0 million as at March 31, 2005).

10. ACCUMULATED PROVISION FOR LOSSES

	2006			2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec ⁽¹⁾	Total	Total
Balance at beginning of year	85 784	558 956	644 740	646 092
Provision for losses ⁽²⁾	7 654	228 234	235 888	165 742
Recoveries	289	2 689	2 978	645
Write-offs ⁽³⁾	<u>(6 138)</u>	<u>(39 674)</u>	<u>(45 812)</u>	<u>(89 196)</u>
Guarantee disbursements that did not create an asset	<u>(6 001)</u>	<u>(14 051)</u>	<u>(20 052)</u>	<u>(78 543)</u>
Balance at end of year	<u>81 588</u>	<u>736 154</u>	<u>817 742</u>	<u>644 740</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

10. ACCUMULATED PROVISION FOR LOSSES (cont'd)

	2006			2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec ⁽¹⁾	Total	Total
Accumulated provision for losses is broken down as follows:				
Loans	36 411	481 698	518 109	424 319
Shares	2 074	53 776	55 850	51 002
Units	557	12 528	13 085	12 893
Other receivables related to financing operations	207	1 114	1 321	
Guarantees	42 339	187 038	229 377	156 526
	<u>81 588</u>	<u>736 154</u>	<u>817 742</u>	<u>644 740</u>

The Corporation may demand that 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 \$9.9 million as at March 31, 2006 (\$17.7 million as at March 31, 2005) and the value of guarantees at \$20.5 million (\$24.6 million as at March 31, 2005). The value of securities and sureties related to guarantees concerning companies with financial situations corresponding to that of the Corporation's target clientele stood at \$98.5 million as at March 31, 2006 (\$100 million as at March 31, 2005).

- (1) Corresponds to the "Accumulated provision for losses recoverable from the Government of Québec" shown as an asset on the balance sheet.
- (2) Includes an amount of \$4.4 million for exchange gains as at March 31, 2006 (\$3.1 million as at March 31, 2005).
- (3) There were no write-offs in the form of restructured loans for the fiscal year ended March 31, 2006 (\$0.8 million as at March 31, 2005).

11. OTHER ASSETS

	2006	2005
Receivable from the Government of Québec	13 338	48 171
Stock options	3 757	3 927
Deferred fees to financial intermediaries	78 557	71 009
Interest and dividends receivable on investments	1 783	1 805
Deferred issuance expenses on long-term debt ⁽¹⁾	4 475	5 194
Assets related to financial derivative instruments	2 186	
Tangible assets, less accumulated amortization of \$3.6 million (\$3.0 million as at March 31, 2005)	1 992	2 138
Limited-life intangible assets, less accumulated amortization of \$6.3 million (\$6.1 million as at March 31, 2005)	623	604
Administration fees receivable-related companies	225	
Other receivables related to financing operations, less accumulated provision for losses ⁽²⁾	1 651	3 550
Other receivables	<u>783</u>	<u>463</u>
	<u>109 370</u>	<u>136 861</u>

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

11. OTHER ASSETS (cont'd)

- (1) From transactions concluded with the Fonds de financement du gouvernement du Québec.
 (2) Other receivables related to financial operations, less accumulated provisions for losses.

	2006		2005
	Losses Not Refunded by the Government of Québec	Losses Refunded by the Government of Québec	Total
			Total
Other receivables related to financial operations	764	2 208	2 972
Accumulated provision for losses on other receivables related to financial operations (Note 10)	(207)	(1 114)	(1 321)
	<u>557</u>	<u>1 094</u>	<u>1 651</u>
			<u>3 550</u>

The amount of other receivables related to financial operations labelled in US dollars totalled \$0.5 million in Canadian dollars as at March 31, 2006 (\$0.2 million as at March 31, 2005).

12. SHORT-TERM DEBT

	2006	2005
Bank acceptances—financial institutions, from 3.87% to 3.94%, maturing in April and May 2006	37 500	127 200
Notes—financial institutions 3.90%, maturing in April 2006	43 700	44 200
Notes—Fonds de financement du gouvernement du Québec, 3.86%, maturing in April 2006	20 700	64 500
	<u>101 900</u>	<u>235 900</u>

Under decrees 310-2002 and 311-2002, of March 20, 2002, the Corporation is authorized to contract active short-term loans totalling up \$600 million with financial institutions or with the Fonds de financement du gouvernement du Québec, until September 30, 2006. Moreover, under decree 675-2004 of June 30, 2004, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the non-fulfilment of obligations stemming from loans with the Fonds de financement du gouvernement du Québec.

As at March 31, 2006, the Corporation had bank credit lines of \$10 million, renewable in July 2006. The amounts used bear interest at the lender's prime rate.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

13. LONG-TERM DEBT

	2006	2005
Notes—Fonds de financement du gouvernement du Québec:		
- at the banker's acceptance rate (1 month) plus 0.19%, maturing in October 2007	75 000	75 000
- at the banker's acceptance rate (1 month) plus 0.28 %, maturing in July 2009	175 000	175 000
- 4.33%, maturing in July 2010	28 200	28 200
- 8.00%, maturing in December 2010, nominal value of \$75.6 million (effective rate of 6.07%)	80 868	81 997
- at the banker's acceptance rate (3 months) plus 0.15%, maturing in October 2013	100 000	100 000
- at the banker's acceptance rate (1 month) plus 0.08%, maturing in October 2013	60 000	60 000
- at the banker's acceptance rate (1 month) plus 0.05%, maturing in October 2013 ⁽¹⁾	162 500	162 500
- at the banker's acceptance rate (1 month) plus 0.12%, maturing in October 2013	134 120	134 120
- at the banker's acceptance rate (1 month) plus 0.09%, maturing in October 2013 ⁽¹⁾	52 500	52 500
- at the banker's acceptance rate (1 month) plus 0.10%, maturing between February 2012 and May 2014	100 000	100 000
- at the banker's acceptance rate (1 month) plus 0.21%, maturing In June 2032	47 500	47 500
Interest-free advanced from the Government of Québec, maturing between June and November 2020	44 667	
Note—immigrant investors, interest-free, maturing between April 2006 and April 2011 ⁽²⁾	2 291 600	1 793 200
	<u>3 351 955</u>	<u>2 810 017</u>

Repayment of principal on long-term debt is as follows:

2007	184 800
2008	399 800
2009	544 000
2010	888 600
2011	633 068
2012 and beyond	701 687
	<u>3 351 955</u>

Under decrees 482-2002 and 483-2002 of April 24, 2002 and amended by decree 342-2003 of March 5, 2003, the Corporation is authorized to contract long-term loans totalling up to \$1.5 billion with the Fonds de financement du gouvernement du Québec, until September 30, 2006. In addition, under decree 675-2004 of June 30, 2004, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the non-fulfilment of obligations stemming from loans with the Fonds de financement du gouvernement du Québec.

- (1) The Corporation has the option of renewing this loan, for a maximum period of 20 years from the maturity of the initial loan.
- (2) Payment of principal is guaranteed by the Government of Québec.

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

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14. OTHER LIABILITIES

	2006	2005
Financial contributions and guarantees payable	1 077	5 203
Financial contributions to be paid to Emploi-Québec	2 609	
Deferred income ⁽¹⁾	3 060	2 053
Liabilities related to derivative financial instruments	2 603	
Sick leave and vacations payable (Note 30)	10 319	9 990
Other payables ⁽²⁾	4 514	5 110
	<u>24 182</u>	<u>22 356</u>

(1) Includes the deferred contribution of the Ministère du Développement économique, de l'Innovation et de l'Exportation to the "Investors' and Promoters' Data Bank" for an amount of \$50,000 as at March 31, 2006 (\$50,000 as at March 31, 2005). The amount of reported revenues denominated in US dollars totalled CDN \$1.8 million as at March 31, 2006 (\$1 million as at March 31, 2005).

(2) Includes \$0.2 million due to related entities as at March 31, 2006 (\$0.3 million as at March 31, 2005).

15. INTEREST INCOME

	2006	2005	2004
Interest on loans	42 710	39 143	36 940
Interest on notes receivable from the Government of Québec	79 056	54 345	30 985
Interest on cash and temporary investments	648	197	1 741
Interest contribution from the Government of Québec on certain low-yield or zero-yield financing operations ⁽¹⁾	33 480	27 420	27 688
	<u>155 894</u>	<u>121 105</u>	<u>97 354</u>

(1) This contribution pertains to financing operations for which losses are refunded by the Government of Québec. It corresponds to the surplus of the Corporation's average borrowing cost over the yield of these operations.

16. RISK PREMIUMS – STOCK OPTIONS

	2006	2005	2004
Gain on disposal of stock options	2 220	878	331
Gain on disposal of shares stemming from the execution of stock options	1 473	1 556	3 819
Unrealized loss resulting from changes in the fair value of stock options	(170)	(25)	
	<u>3 523</u>	<u>2 409</u>	<u>4 150</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

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17. OTHER INCOME

	2006	2005	2004
Gain on disposal of shares and units	136 437	17 173	508
Share of earnings distributed by a limited partnership		70	417
Dividends	21	3	
Inducement fees	3 020	2 180	1 520
Attestation and certification fees	2 160	104	
Income on other investments	6 128	5 193	1 857
Gain on disposal of investments	1 165	887	504
Unrealized depreciation in value of investments	(515)		
Unrealized foreign exchange loss on investments	(284)	(629)	
Net loss on derivative financial instruments	(6 346)	(107)	(511)
Other income from the Government of Québec	1 667	1 885	512
Other income	952	225	61
	<u>144 405</u>	<u>26 984</u>	<u>4 868</u>

18. INTEREST CHARGES

	2006	2005	2004
Interest on long-term debt ⁽¹⁾	35 452	29 399	26 037
Interest on short-term debt and bank charges ⁽²⁾	3 674	6 794	11 052
Amortization of issuance expenses on long-term debt ⁽¹⁾	719	713	460
Amortization of long-term debt discounts and premiums ⁽¹⁾	(1 129)	(1 129)	(1 109)
	<u>38 716</u>	<u>35 777</u>	<u>36 440</u>

(1) From transactions concluded with the Fonds de financement du gouvernement du Québec.

(2) Interest charges on short-term loans taken out with the Fonds de financement du gouvernement du Québec totalled \$0.9 million for the fiscal year ended March 31, 2006 (\$2.1 million for the fiscal year ended March 31, 2005; \$3.8 million for the fiscal year ended March 31, 2004).

19. FINANCIAL CONTRIBUTIONS

	2006			2005	2004
	Not Assumed by the Québec Government	Assumed by the Québec Government ⁽¹⁾	Total	Total	Total
Non-refundable financial contributions	34 857	27 752	62 609	51 786	52 218
Financial contributions — Emploi-Québec	2 609		2 609		
Conditional-refund financial contributions		(2 590)	(2 590)	847	3 919
	<u>37 466</u>	<u>25 162</u>	<u>62 628</u>	<u>52 633</u>	<u>56 137</u>

(1) Corresponds to "Financial contributions assumed by the Government of Québec " shown in the consolidated statement of income.

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

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20. OTHER EXPENSES

	2006	2005	2004
Counter-guarantee fees	3 020	2 180	1 520
Share of income—affiliated company, Canadair Québec Capital S.E.N.C.	9		20
Other	862	806	432
	<u>3 891</u>	<u>2 986</u>	<u>1 972</u>

21. ADMINISTRATIVE EXPENSES ⁽¹⁾

	2006	2005	2004
Salaries and employee benefits	30 282	28 228	28 754
Rent	2 757	2 320	2 419
Travel, entertainment, advertising and promotion	4 001	3 489	3 375
Fees	989	1 056	762
Amortization of fixed assets and limited-life intangible assets	800	859	1 921
Other	4 521	4 324	3 358
	<u>43 350</u>	<u>40 276</u>	<u>40 589</u>

(1) Include \$3.9 million for related entities for the fiscal year ended March 31, 2006 (\$4.6 million for the fiscal year ended March 31, 2005; \$3.6 million for the fiscal year ended March 31, 2004).

22. CHANGES IN NON-CASH ITEMS RELATED TO OPERATING ACTIVITIES

	2006	2005	2004
Other assets	34 888	(37 569)	204
Due and accrued interest on debt	2 810	297	6 898
Other liabilities	(777)	2 186	(3 084)
Accumulated provision for losses	(62 886)	(167 094)	(64 875)
Accumulated provision for losses recoverable from the Government of Québec	51 036	150 337	47 992
	<u>25 071</u>	<u>(51 843)</u>	<u>(12 865)</u>

23. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing a financing operation, the Corporation may require from the client company a stock option risk premium that varies based on the nature of the risk. The Corporation also conducts transactions in the form of standardized futures contracts for the purchase or sale of financial instruments at specific prices and at future dates. Futures contracts are traded based on standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

The following table shows the fair value of the Corporation's portfolio of derivative financial instruments as at March 31, 2006, as represented by gains not realized in the case of stock options and by gains or losses not realized with regard to futures contracts.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

23. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

	2006			2005
	Positive	Negative	Net amount	Net amount
Stock options	3 757		3 757	3 927
Exchange contracts—options	2 186		2 186	
Interest rate contracts—swaps		2 603	(2 603)	
Exchange-traded futures contracts	79		79	81
	<u>6 022</u>	<u>2 603</u>	<u>3 419</u>	<u>4 008</u>

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is designed to establish the approximate amounts at which financial instruments may be traded between unrelated parties acting freely under conditions of full competition in the normal course of business. The best indication of fair value is market price.

When available, market price is used by the Corporation 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 accepted valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among different entities. Fair value is based on the market situation at a given point in time, and hence does not necessarily reflect the future fair value of the instrument. It cannot be interpreted as the amount that would be received upon immediate settlement of the instruments.

The following table illustrates the fair value of balance-sheet and off-balance-sheet financial instruments, including 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 tangible assets and limited-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.

	2006			2005		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
Balance-sheet financial instruments						
Assets						
Cash, bank overdraft and temporary investments	3 667	3 667		8 684	8 684	
Investments	2 285 790	2 284 446	(1 344)	1 730 962	1 762 962	32 000
Loans, less accumulated provision for losses ⁽¹⁾	737 395	681 543	(55 852)	744 925	655 927	(88 998)
Shares and units, less accumulated provision for losses ⁽¹⁾	306 203	58 668	(247 535)	335 755	81 015	(254 740)
Accumulated provision for losses recoverable from the Government of Québec	736 154	918 199	182 045	558 956	671 580	112 624
Stock options	3 757	3 757		3 927	3 927	
Derivative-related assets	2 186	2 186				
Interest contributions from the Government of Québec		160 970	160 970		134 791	134 791
Other assets	<u>17 756</u>	<u>17 756</u>		<u>53 963</u>	<u>53 963</u>	
Amounts carried forward	<u>4 092 908</u>	<u>4 131 192</u>	<u>38 284</u>	<u>3 437 172</u>	<u>3 372 849</u>	<u>(64 323)</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

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24. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2006			2005		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
Balance-sheet financial instruments (cont'd)						
Amounts brought forward	<u>4 092 908</u>	<u>4 131 192</u>	<u>38 284</u>	<u>3 437 172</u>	<u>3 372 849</u>	<u>(64 323)</u>
Liabilities						
Loans	3 453 855	3 199 476	254 379	3 045 917	2 838 160	207 757
Derivative-related liabilities	2 603	2 603		81	81	
Other liabilities	<u>23 574</u>	<u>23 548</u>	<u>26</u>	<u>22 877</u>	<u>22 863</u>	<u>14</u>
	<u>3 480 032</u>	<u>3 225 627</u>	<u>254 405</u>	<u>3 068 875</u>	<u>2 861 104</u>	<u>207 771</u>
Off-balance-sheet financial instruments						
Guarantees ⁽²⁾	<u>(229 377)</u>	<u>(290 071)</u>	<u>(60 694)</u>	<u>(156 526)</u>	<u>(152 544)</u>	<u>3 982</u>
	<u>(229 377)</u>	<u>(290 071)</u>	<u>(60 694)</u>	<u>(156 526)</u>	<u>(152 544)</u>	<u>3 982</u>
			<u>231 995</u>			<u>147 430</u>

(1) The Corporation accounted for low-yield or zero-yield loans, shares and units, less the accumulated provision for losses, at a value higher than their fair value. The gap between the book value (\$1.0 billion) and the fair value (\$740.0 million) is not due to reduced sustainable value but stems rather from the discounting of these loans, shares and units. The Corporation accounts for the latter at cost, given that the 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 book value of guarantees, which corresponds to the amount of the accumulated provision for losses on guarantees, is part of the financial instruments shown on the Corporation's balance sheet.

The fair value of balance-sheet and off-balance-sheet financial instruments was estimated using the following methods and assumptions:

Cash, outstanding cheques less cash, temporary investments, bank overdraft, short-term loans, other assets and other liabilities

Given the short-term maturities of cash, outstanding cheques less cash, temporary investments with maturities not exceeding three months following the date of acquisition, bank overdraft, short-term loans and other assets and liabilities, their fair value is considered to be equivalent to the book value.

The fair value of temporary investments with maturities exceeding three months following the date of acquisition is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using interest rates prevailing on the market for debts with similar conditions and credit risks.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

24. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Investments

The fair value of investments in securities is based on market prices. The fair value of receivable notes from the Government of Québec is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

Loans

The fair value of the loans portfolio is based on the evaluation of the interest rate risk and the credit risk. The fair value of fixed-rate, fixed-repayment loans is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for loans with similar conditions and credit risks. The fair value of variable-rate loans or loans with rates that are revised frequently is deemed to be equal to the net book value. The fair value of variable-repayment loans cannot be estimated with a reasonable effort, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the net book value. For doubtful loans, the fair value is deemed to be equal to the net book value, in accordance with the valuation methods described in note 2 under "Accumulated provision for losses."

Shares and units

The fair value of shares and units is based on market prices when they are available. The fair value of preferred shares with an established redemption date and that of fixed-rate, fixed-repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for shares and units with similar conditions and credit risks. In the case of the other equity securities that are not traded on organized markets, the fair value, since it cannot be estimated with a reasonable effort, is deemed to be equivalent to the net book value.

Accumulated provision for losses recoverable from the Government of Québec

The fair value of the accumulated provision for losses recoverable from the Government of Québec is based on the evaluation of the interest rate risk and the credit risk. The fair value of the accumulated provision for losses recoverable from the Government of Québec is estimated by discounting cash flows, which correspond to anticipated losses on financing operations, using the interest rates of the Government of Québec and taking into account the history of the Corporation's losses for financing operations with similar conditions and credit risks.

Derivative financial instruments

The fair value of derivative financial instruments is based on market prices when they are available. In the case of stock options that are not traded on organized markets, the fair value is based on the book value 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 evaluation of the interest rate risk and the credit risk. The fair value of interest contributions from the Government of Québec is estimated by discounting cash flows, using the interest rates of the Government of Québec.

Long-term debt

The fair value of fixed-rate long-term debt is based on market prices for debt instruments with similar conditions and credit risks. The fair value of variable-rate long-term debt is deemed to be equal to the net book value.

Guarantees

The fair value of the guarantees portfolio is based on the evaluation of the interest rate risk and the credit risk. The fair value of guarantees is estimated by discounting guarantee disbursements and fees for anticipated guarantees, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for guarantees with similar conditions and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value corresponds to the accumulated provision for losses, in accordance with the valuation methods described in note 2 under "Accumulated provision for losses."

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

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25. INTEREST RATE SENSITIVITY POSITION

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 different cash flows, whether on or off balance sheet. The impact of this risk on the Corporation's financial results depends on variations in interest rates.

The Corporation's sensitivity to interest rate variations as at March 31 is broken down as follows:

	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							
Assets							
Temporary investments		9 608					9 608
<i>Real interest rate</i>		3.8%					
Investments		22 200	166 573	1 979 075	7 071	110 948	2 285 867
<i>Real interest rate</i>		5.8%	5.1%	4.2%	4.7%		
Interests-free loans		5 969	19 767	86 006	283 149	187 970	582 861
Other loans, shares and units	382 503	24 770		115 143	33 308	492 057	1 047 781
<i>Real interest rate</i>		6.0%		7.8%	6.9%		
Accumulated provision for losses on loans, shares and units						(587 044)	(587 044)
Accumulated provision for losses recoverable from the Government of Québec						736 154	736 154
Other assets						109 370	109 370
	<u>382 503</u>	<u>62 547</u>	<u>186 340</u>	<u>2 180 224</u>	<u>323 528</u>	<u>1 049 455</u>	<u>4 184 597</u>
Liabilities and equity							
Bank overdraft						5 941	5 941
Interest-free debt		21 600	163 200	2 106 400	45 067		2 336 267
Interest-bearing debt		1 008 520		109 068			1 117 588
<i>Real interest rate</i>		3.9%		5.6%			
Other liabilities		(55 316)			57 919	266 330	268 933
Equity						455 868	455 868
		<u>974 804</u>	<u>163 200</u>	<u>2 215 468</u>	<u>102 986</u>	<u>728 139</u>	<u>4 184 597</u>
Sensitivity gap (Amounts carried forward)	382 503	(912 257)	23 140	(35 244)	220 542	321 316	

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
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25. INTEREST RATE SENSITIVITY POSITION (cont'd)

	2006						Total
	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	
Sensitivity gap (Amounts brought forward)	382 503	(912 257)	23 140	(35 244)	220 542	321 316	
Off-balance-sheet financial instruments							
Guarantees						2 152 918	2 152 918
Sensitivity gap						(2 152 918)	(2 152 918)
Total	<u>382 503</u>	<u>(912 257)</u>	<u>23 140</u>	<u>(35 244)</u>	<u>220 542</u>	<u>(1 831 602)</u>	<u>(2 152 918)</u>
	2005						Total
	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	
Balance-sheet financial instruments	180 214	(1 029 764)	(78 112)	63 711	228 152	635 799	
Off-balance-sheet financial instruments						(1 570 655)	(1 570 655)
Total	<u>180 214</u>	<u>(1 029 764)</u>	<u>(78 112)</u>	<u>63 711</u>	<u>228 152</u>	<u>(934 856)</u>	<u>(1 570 655)</u>

The real interest rate represents the average weighted effective interest rate in view of the rate modification date scheduled in the contract or the maturity date, whichever comes first.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

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26. CONCENTRATION OF CREDIT RISK RELATED TO FINANCIAL OPERATIONS

	Loans, Shares, Units and Other 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 Other Receivables less the Accumulated Provision for Losses	Guarantees less the Accumulated Provision for Losses	Accumulated Provision for Losses Recoverable from the Government of Québec
Per sector of activity:						
Primary sector companies	7 496	6 327	39 123	14 386	6 529	29 397
Secondary sector companies						
Transportation equipment	163 981	1 776 654	210 157	167 032	1 220 812	59 851
Paper	253 862	2 924	207 821	265 131	2 398	189 208
Primary processing metals and metal products	323 090	25 307	30 942	342 567	19 791	31 112
Other	178 226	137 140	127 956	171 137	128 124	142 908
	919 159	1 942 025	576 876	945 867	1 371 125	423 079
Tertiary sector companies	118 594	204 566	120 155	120 427	193 001	106 480
	1 045 249	2 152 918	736 154	1 080 680	1 570 655	558 956
With the Government of Québec:						
Financing operations for which losses are refunded by the Government of Québec	1 002 521	1 961 413	736 154	1 035 230	1 387 138	558 956

27. FINANCING AND INVESTMENT COMMITMENTS

The financing commitments made by the Corporation in the regular course of its activities are presented in the table below and are grouped into two categories. The first represents financing agreements authorized by the Corporation 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. Furthermore, under agreements with its partners, the Corporation has agreed to investments, in the form of units of limited partnerships, of a maximum amount of \$288 million, as follows up to \$156 million to support the creation of FIER-Regions, up to \$90 million in the FIER Partners pooled fund and up to \$42 million to implement Support Funds.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
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27. FINANCING AND INVESTMENT COMMITMENTS (cont'd)

The total value of these commitments does not necessarily represent future cash needs, because several will expire or will be cancelled without having resulted into any disbursements.

The amounts of the commitments are as follows:

	2006		2005
	Losses Not Refunded and Contributions Not Assumed by the Government of Québec	Losses Refunded and Contributions Assumed by the Government of Québec	Total
			Total
Commitments on authorized financing agreements not yet accepted by clients			
Loans	4 161	15 953	20 114
Guarantees	6 506	6 506	13 012
Financial contributions	2 062	11 595	13 657
	12 729	34 054	46 783
			1 274 245
Commitments on financing agreements accepted by clients			
Loans	7 288	319 521	326 809
Guarantees	71 512	452 762	524 274
Financial contributions	138 327	120 848	259 175
	217 127	893 131	1 110 258
			817 502
Investments commitments in the form of units of limited partnerships			
FIER-Regions		104 752	104 752
FIER Partners, L.P.		88 974	88 974
Support Funds		11 433	11 433
		205 159	205 159
			20 000
	229 856	1 132 344	1 362 200
			2 111 747

The amount of commitments denominated in US dollars stood at \$62 835 in Canadian dollars as at March 31, 2006 (\$0.3 million as at March 31, 2005).

28. OTHER COMMITMENTS

The Corporation has undertaken to pay fees of \$24.3 million as at March 31, 2006 (\$17.6 million as at March 31, 2005) to financial intermediaries for the solicitation of immigrant investor files, for the research of companies to recommend and for the closing of immigrant investor files.

INVESTISSEMENT QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

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28. OTHER COMMITMENTS (cont'd)

The Corporation agreed to pay financial contributions under the “Employment Integration Program for Immigrants and Visible Minorities” (PRIME) administered by Emploi-Québec and intended for businesses. Furthermore, it agreed to pay financial contributions related to the promotion of business immigration by the Ministère de l’Immigration et des Communautés culturelles. As at March 31, 2006, the unused amount of these contributions was \$1.7 million.

29. PENSION PLANS

The employees of Investissement Québec subscribe to the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These are inter-company defined-benefit plans that include retirement and death coverage. Investissement Québec’s obligations toward these government plans are limited to its contributions as an employer. Investissement Québec’s contributions charged to the statement of income for the fiscal year amount to \$1.4 million (\$1 million for the fiscal year ended March 31, 2005; \$0.9 million for the fiscal year ended March 31, 2004).

The employer’s responsibilities toward the supplementary pension plans consist in fully assuming benefits when the beneficiary of the plan retires. Thus, no contribution is paid by the employees or the employer. As at March 31, 2006, the employer’s obligations stood at \$0.1 million (\$0.1 million as at March 31, 2005) and appear under “Other liabilities”. The Corporation did not charge any cost to the statements of income for the fiscal year ended March 31, 2006 and March 31, 2005 (\$0.1 million for the fiscal year ended March 31, 2004). The significant actuarial assumptions used by the Corporation to evaluate its obligations regarding benefits are as follows: the expected rate of return for the plan is 6.75% and the growth rate for compensation is 4.00%.

30. SICK LEAVE AND VACATIONS PAYABLE

	2006	2005
Balance at beginning of year	9 990	9 863
Expense for the year	3 198	2 133
Amount paid during the year	(2 869)	(2 006)
Balance at end of year	<u>10 319</u>	<u>9 990</u>

31. CONTINGENCIES

Under decree 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 the price of one dollar. Investissement Québec will partly guarantee the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up cost, which it must assume, might reach \$11.7 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Government of Québec.

During a previous year, the Corporation recorded a gain on disposal of shares from an option, following the sale of all the shares issued by a company. As part of this transaction, the Corporation agreed to compensate the managing shareholders for damages or losses which they might incur due to the guarantees that they gave to the buyer. The maximum amount that the Corporation could be held to pay in this regard is \$0.6 million. This commitment will end no later than January 15, 2007.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently under way. In the Corporation’s opinion, the outcome of these proceedings will not have a significant impact on its financial position or the results of its operations.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

32. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the 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 during the normal course of its activities and under usual business conditions. All of these transactions, accounted for according to their exchange value, are shown separately in the financial statements.

33. COMPARATIVE FIGURES

Certain figures from fiscal 2004 and 2005 have been reclassified to correspond with the presentation adopted in fiscal 2006.

34. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2006					2005	
	Investissement Québec Non- Consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other Subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated Total	Consolidated Total
Assets							
Cash		44		4	(48)		
Temporary investments		2 605	7 003			9 608	9 588
Investments		2 245 462	40 328	77		2 285 867	1 731 246
Loans, less accumulated provision for losses	737 395					737 395	744 925
Shares, less accumulated provision for losses	303 739					303 739	333 011
Units, less accumulated provision for losses	2 464					2 464	2 744
Accumulated provision for losses recoverable from the Government of Québec	736 154					736 154	558 956
Investments in subsidiaries, valued under the equity accounting method	31 554				(31 554)		
Advances to subsidiaries	45 030				(45 030)		
Other assets	30 561	80 340	72	79	(1 682)	109 370	136 861
	1 886 897	2 328 451	47 403	160	(78 314)	4 184 597	3 517 331

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

34. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2006					2005	
	Investissement Québec Non- Consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other Subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated Total	Consolidated Total
Liabilities and equity							
Liabilities							
Outstanding cheques less cash			2 666		(2 666)		904
Bank overdraft	3 323				2 618	5 941	
Short-term debt	101 900					101 900	235 900
Long-term debt	1 060 355	2 291 600				3 351 955	2 810 017
Due and accrued interest on loans	15 374					15 374	12 564
Advances from the parent company			44 867	163	(45 030)		
Accumulated provision for losses on guarantees	229 377					229 377	156 526
Other liabilities	20 700	3 886	1 198	80	(1 682)	24 182	22 356
	<u>1 431 029</u>	<u>2 295 486</u>	<u>48 731</u>	<u>243</u>	<u>(46 760)</u>	<u>3 728 729</u>	<u>3 238 267</u>
Equity							
Initial equity and share capital	32 944	1	1	3	(5)	32 944	32 944
Retained earnings (deficit)	422 924	32 964	(1 329)	(86)	(31 549)	422 924	246 120
	<u>455 868</u>	<u>32 965</u>	<u>(1 328)</u>	<u>(83)</u>	<u>(31 554)</u>	<u>455 868</u>	<u>279 064</u>
	<u>1 886 897</u>	<u>2 328 451</u>	<u>47 403</u>	<u>160</u>	<u>(78 314)</u>	<u>4 184 597</u>	<u>3 517 331</u>
Guarantees, less accumulated provision for losses	<u>2 152 918</u>					<u>2 152 918</u>	<u>1 570 655</u>

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

35. STATEMENT OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2006					2005	
	Investissement Québec Non- Consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other Subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated Total	Consolidated Total
Income from operations							
Interest income	76 341	79 241	312			155 894	121 105
Guarantee fees	19 696					19 696	14 636
Risk premiums							
Stock options	3 523					3 523	2 409
Share-in- earnings and lump-sum premiums	4 862					4 862	3 814
Commitment fees	12 151					12 151	6 613
Fees-related company, IQ Immigrants Investisseurs inc.	1 203				(1 203)		
Other income	137 911	7 009	(515)			144 405	26 984
	<u>255 687</u>	<u>86 250</u>	<u>(203)</u>		<u>(1 203)</u>	<u>340 531</u>	<u>175 561</u>
Expenses from operations							
Interest charges	38 716					38 716	35 777
Financial contributions	25 005	37 466		157		62 628	52 633
Financial contributions assumed by the Government of Québec	(25 005)			(157)		(25 162)	(31 665)
Fees to financial intermediaries		32 650				32 650	26 464
Fees for the management of financial contribution files –parent company		1 384			(1 384)		
Other expenses	3 326	270		9	286	3 891	2 986
	<u>42 042</u>	<u>71 770</u>		<u>9</u>	<u>(1 098)</u>	<u>112 723</u>	<u>86 195</u>
Operating income before provision							
Amounts carried forward	<u>213 645</u>	<u>14 480</u>	<u>(203)</u>	<u>(9)</u>	<u>(105)</u>	<u>227 808</u>	<u>89 366</u>

INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars unless otherwise indicated)

35. STATEMENT OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2006					2005	
	Investissement Québec Non- Consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other Subsidiaries	Eliminations and reclassi- fications ⁽¹⁾	Cumulative Total	Cumulative Total
Operating income before provision							
Amounts brought forward	213 645	14 480	(203)	(9)	(105)	227 808	89 366
Provision							
Provision for losses	235 888					235 888	165 742
Provision for losses recoverable from the Government of Québec	(228 234)					(228 234)	(146 542)
	7 654					7 654	19 200
Operating income	205 991	14 480	(203)	(9)	(105)	220 154	70 166
Expenses related to administration							
Administrative expenses	42 218	328	909		(105)	43 350	40 276
Administration fees – Government of Québec							(21 946)
	42 218	328	909		(105)	43 350	18 330
Net income before share of earnings of subsidiaries	163 773	14 152	(1 112)	(9)		176 804	51 836
Share of earnings of subsidiaries	13 031				(13 031)		
Net income	176 804	14 152	(1 112)	(9)	(13 031)	176 804	51 836

(1) Eliminations related to balances and business-to-business 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 appearing in this annual report.

The consolidated financial statements have been drawn up in accordance with Canadian generally accepted accounting principles.

The financial information disclosed in the annual report is consistent with that contained in the financial statements.

The Corporation's accounting system, as well as its internal controls and procedures, are designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The Board of Directors, which is responsible for monitoring the manner in which management fulfills its responsibilities regarding financial information, approved the financial statements. The Board is assisted in carrying out its mandate by the Audit and Human Resources Committee. This Committee meets with Management and the auditor, reviews the financial statements, and recommends their approval to the Board. The Audit and Human Resources Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations.

André Côté
Acting President and Chief Executive Officer

Rodrigue Brillant
Acting Vice-President, Administration

AUDITOR'S REPORT

To the National Assembly,

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2006, 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 that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 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, given the retroactive application of the change made to fair value accounting of investments held by a subsidiary and explained in note 3, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, May 29, 2006

IQ FIER INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand		3
Short-term investments (Note 4)	7 003	
Investments (Note 5)	40 328	198
Other accounts receivable	<u>72</u>	
	<u>47 403</u>	<u>201</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Outstanding cheques less cash on hand	2 666	
Advances from parent company, interest-free, repayable between June and November 2020	44 867	200
Fees payable to parent company	1 198	166
Other accounts payable	<u>51</u>	
	<u>48 731</u>	<u>417</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 6)	1	1
Deficit	<u>(1 329)</u>	<u>(217)</u>
	<u>(1 328)</u>	<u>(216)</u>
	<u>47 403</u>	<u>201</u>

INVESTMENT COMMITMENTS (Note 10)

The notes are an integral part of the financial statements.

For the Board of Directors,
André Côté, Chairman of the Board
Lucien Biron, Administrator

IQ FIER INC.

STATEMENT OF REVENUES AND DEFICIT
for the year ended March 31
(in thousand of dollars)

	2006 (12 months)	2005 (2 months)
OPERATING REVENUES		
Interest income on cash and short-term investments	312	
	312	
OPERATING EXPENSES		
Unrealized write-down on investments	515	
Administrative fees – Parent company (Note 7)	909	217
	1 424	217
NET LOSS	(1 112)	(217)
Opening deficit	(217)	
CLOSING DEFICIT	(1 329)	(217)

The notes are an integral part of the financial statements.

IQ FIER INC.

CASH FLOWS
for the year ended March 31
(in thousand of dollars)

	2006 <u>(12 months)</u>	2005 <u>(2 months)</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net loss	(1 112)	(217)
Adjustment for:		
Unrealized write-down on investments	<u>515</u>	<u>(217)</u>
	(597)	(217)
Change in non-cash elements linked to operations (Note 8)	<u>909</u>	<u>217</u>
	<u>312</u>	
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of investments	<u>(40 645)</u>	<u>(198)</u>
	<u>(40 645)</u>	<u>(198)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Net increase in advances from the parent company	44 667	200
Stock issue		<u>1</u>
	<u>44 667</u>	<u>201</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4 334	3
Cash and cash equivalents, beginning of year	<u>3</u>	
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>4 337</u></u>	<u><u>3</u></u>
CASH AND CASH EQUIVALENTS		
Cash on hand		3
Short-term investments	7 003	
Outstanding cheques less cash on hand	<u>(2 666)</u>	
	<u><u>4 337</u></u>	<u><u>3</u></u>

The notes are an integral part of the financial statements.

IQ FIER INC.**NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2006

(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 Order-in-Council 680-2005, dated June 29, 2005, IQ FIER inc. can invest an amount of up to \$288 million as follows: up to \$156 million to support the creation of FIER-Régions, up to \$90 million in the FIER-Partenaires mutual fund and up to \$42 million to set up Fonds-Soutien. The amounts invested by the company come from the parent company which is mandated to receive them from the Ministère des Finances.

2. STATEMENT OF MAIN ACCOUNTING POLICIES

The consolidated financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles. As such, Management is required to make estimates and assumptions that 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 the estimates

Cash and cash equivalents

Cash and cash equivalents comprise cash, short-term investments maturing within three months of their acquisition date and outstanding cheques minus cash.

Investments

Shares in limited partnerships and interests in unlisted shares in general partnerships are recorded at fair value. Under contractual agreements with the FIER-Régions and Fonds-Soutien, if the sum of cumulated net annual profits minus cumulated net annual losses is positive at the end of the yield renunciation period for each agreement, the Société renounces its share. Consequently, the fair value of investments reflects this clause. Further, at all times during the yield renunciation period, the other sponsors can opt to purchase shares held by the Corporation, at the price initially paid plus 6% of the annual yield since their acquisition. As of the third fiscal year after the yield renunciation period, they also enjoy an option to purchase for a price that is equal to the fair value of the book value, whichever is higher.

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. CHANGES TO ACCOUNTING POLICIES DUE TO ACCOUNTING STANDARDS RECENTLY ADOPTED BY THE CORPORATION**Consolidation of variable interest entities**

On April 1, 2005, IF FIER inc. adopted CICA Accounting Guideline No. 15 entitled “Consolidation of Variable Interest Entities (AcG-15)”, in effect for fiscal years opened as of November 1, 2004. AcG-15 defines a variable interest entity (VIE) as an entity whose own capital is insufficient to enable it to finance its activities without additional subordinate financial support from a third party or an entity whose capital holders are not collectively empowered to make decisions or obliged to assumed losses foreseen or receive yield, if applicable, AcG-15 provides for a VIE’s consolidation by its main beneficiary, i.e. the entity assuming the

IQ FIER INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

3. CHANGES TO ACCOUNTIN POLICIES DUE TO ACCOUNTING STANDARDS RECENTLY ADOPTED BY THE CORPORATION (cont'd)

Consolidation of variable interest entities (cont'd)

majority of its foreseeable losses or the possibility of receiving the main residual yields. Further, AcG-15 provides for certain data to communicate to VIEs that are not consolidated but in which a corporation holds a significant variable interest. The adoption of AcG-15 does not affect the financial statement or the Corporation's financial disclosure at March 31, 2006.

Investment companies

On April 1, 2005, IQ FIER inc. adopted CICA Accounting Guideline No. 18 entitled "Investment companies (AcG-18)", which is in effect for fiscal years opened as of July 1, 2004. Under this accounting guideline, investment companies must record all investment at fair value, including those that would otherwise be consolidated or recorded on an equity basis. The Accounting Guideline provides criteria making it possible to determine whether a corporation is an investment company. IQ FIER inc. meets these criteria and, as such, qualified as an investment company.

AcG-18 also stipulates under which circumstances the parent company holding an investment company or the investor recording this interest at equity value must record the investment company's investment at fair value.

4. SHORT-TERM INVESMENTS

	2006	2005
Bankers' acceptance, from 3.78% to 3.83%, maturing in April 2006	5 003	
Deposit certificate, 3.70%, maturing in April 2006	2 000	
	<u>7 003</u>	

5. INVESTMENTS

	2006	2005
Limited partnership shares		
FIER-Régions – 66.67% of the shares issues by each limited partnership, maturing between June 2015 and February 2016 ^{1,2}	31 010	
FIER Partenaires, s.e.c. – 50% of the shares issued, maturing no later than March 2017 ^{3,4}	769	197
Fonds-Soutien – 66.67% of the shares issued by each limited partnership, maturing between July 2015 and March 2016 ^{1,2}	8 552	
Amounts carried forward	<u>40 331</u>	<u>197</u>

IQ FIER INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

5. INVESTMENTS (cont'd)

	<u>2006</u>	<u>2005</u>
Amounts brought forward	40 331	197
Shares of corporations acting as sponsors		
FIER-Régions – Non-voting shares ¹	(5)	
FIER Partenaires, inc. – 50% of voting shares ³	1	1
Fonds-Soutien – Non-voting shares ¹	<u>1</u>	
	(3)	1
	<u>40 328</u>	<u>198</u>

- 1 The fair value was established using financial statements that were audited and unaudited at December 31, 2005.
2 These dates could be deferred by general partnerships with the unanimous consent of sponsors for no more than two additional one-year periods.
3 The fair value was established using the unaudited financial statements at March 31, 2006.
4 This date could be deferred by general partnerships with the unanimous consent of sponsors for no more than three additional one-year periods.

6. 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>2006</u>	<u>2005</u>
Issued and paid		
10 class A shares	<u>1</u>	<u>1</u>

7. ADMINISTRATIVE FEES – PARENT COMPANY

	<u>2006</u> (12 months)	<u>2005</u> (2 months)
Administrative fees as:		
Salaries and fringe benefits	447	81
Rent	32	7
Travel, representation, publicity and promotion	129	27
Fees	261	93
Amortization of fixed assets and defined-duration intangible assets	9	2
Other	<u>31</u>	<u>7</u>
	<u>909</u>	<u>217</u>

IQ FIER INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

8. CHANGE IN NON-CASH ELEMENTS LINKED TO OPERATIONS

	2006 (12 months)	2005 (2 months)
Other accounts receivable	(72)	
Fees to be paid to the parent company	1 032	166
Other accounts payable	(51)	51
	<u>909</u>	<u>217</u>

9. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

Given that they mature in the short term, the fair value of cash, short-term investments and liabilities is considered equivalent to the book value. The fair value of parent company advances cannot be reasonably estimated since there is no organized market for this type of instrument. Consequently, the fair value is considered equal to the book value. The other financial instruments, such as investments, are already recorded at fair value.

10. 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 follows:

	2006	2005
Limited partnership shares		
FIER-Régions	104 752	20 000
FIER Partenaires, s.e.c.	88 974	
Fonds-Soutien	11 433	
	<u>205 159</u>	<u>20 000</u>

11. RELATED PARTY TRANSACTIONS

The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation's commercial operations with related parties were concluded in the normal course of business and under the usual commercial conditions. All of these operations, recorded at exchange value, were distinctly disclosed in the financial statements.

12. COMPARATIVE FIGURES

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

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, 2006 and the statement of revenues and deficit and the statement of cash flows for the year then ended. These financial statements are the responsibility of IQ FIER management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, IQ FIER's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the change made to fair value accounting of investments held by the Société and explained in note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 23, 2006

IQ IMMIGRANTS INVESTISSEURS INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	44	272
Short-term investments (Note 4)	2 605	9 588
Investments (Note 5)	2 245 462	1 730 962
Interest and dividends receivable on investments	1 783	1 805
Deferred financial intermediaries' fees	<u>78 557</u>	<u>71 009</u>
	<u>2 328 451</u>	<u>1 813 636</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Long-term borrowings (Note 7)	2 291 600	1 793 200
Fees payable to parent company	484	545
Financial contributions payable to Emploi-Québec	2 609	
Other liabilities	<u>793</u>	<u>1 078</u>
	<u>2 295 486</u>	<u>1 794 823</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 8)	1	1
Retained earnings	<u>32 964</u>	<u>18 812</u>
	<u>32 965</u>	<u>18 813</u>
	<u>2 328 451</u>	<u>1 813 636</u>

COMMITMENTS (Note 15)

The notes are an integral part of the financial statements.

For the Board of Directors,
André Côté, Chairman of the Board
Me Gilles Montplaisir, Secretary

IQ IMMIGRANTS INVESTISSEURS INC.
REVENUES AND RETAINED EARNINGS
 for the fiscal year ended March 31
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
OPERATING REVENUES			
Revenues (Note 9)	<u>86 250</u>	<u>59 969</u>	<u>35 029</u>
OPERATING EXPENSES			
Financial intermediaries' fees	32 650	26 464	17 747
Financial contributions (Note 10)	37 466	20 968	10 755
Financial contribution management fees			
– parent company	1 384	1 180	834
Other	<u>270</u>	<u>310</u>	<u>87</u>
	<u>71 770</u>	<u>48 922</u>	<u>29 423</u>
OPERATING PROFITS	<u>14 480</u>	<u>11 047</u>	<u>5 606</u>
ADMINISTRATIVE EXPENSES			
Administrative fees – parent company (Note 11)	<u>328</u>	<u>304</u>	<u>391</u>
NET INCOME	14 152	10 743	5 215
Retained earnings at the beginning	<u>18 812</u>	<u>8 069</u>	<u>2 854</u>
RETAINED EARNINGS AT THE END	<u><u>32 964</u></u>	<u><u>18 812</u></u>	<u><u>8 069</u></u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

CASH FLOW
for the fiscal year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net income	14 152	10 743	5 215
Adjustment for:			
Amortization of premiums and discounts on investments	(77 310)	(52 712)	(30 373)
Gains on sale of investments	(1 165)	(887)	(504)
Unrealized exchange loss on investments	284	629	
Amortization of deferred financial intermediaries fees	24 509	16 969	9 876
	<u>(39 530)</u>	<u>(25 258)</u>	<u>(15 786)</u>
Changes in non-cash items related to operating activities (Note 12)	<u>2 285</u>	<u>(754)</u>	<u>(799)</u>
	<u>(37 245)</u>	<u>(26 012)</u>	<u>(16 585)</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)	69 083
Acquisition of investment	(543 765)	(740 555)	(600 019)
Disposal of investment	107 456	100 916	30 524
Deferred financial intermediaries' fees	(32 057)	(37 872)	(31 362)
	<u>(467 969)</u>	<u>(677 908)</u>	<u>(531 774)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Long-term borrowings	522 400	721 200	556 000
Repayment of long-term borrowings	<u>(24 000)</u>	<u>(13 200)</u>	<u>(6 800)</u>
	<u>498 400</u>	<u>708 000</u>	<u>549 200</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(6 814)</u>	<u>4 080</u>	<u>841</u>
Cash and cash equivalents, beginning of year	<u>9 463</u>	<u>5 383</u>	<u>4 542</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>2 649</u>	<u>9 463</u>	<u>5 383</u>
CASH AND CASH EQUIVALENTS			
Cash on hand	44	272	393
Short-term investment maturing within three months	<u>2 605</u>	<u>9 191</u>	<u>4 990</u>
	<u>2 649</u>	<u>9 463</u>	<u>5 383</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2006

(in thousand of dollars)

1. CONSTITUTION AND NATURE OF ACTIVITIES

IQ Immigrants Investisseurs inc., incorporated under Part 1A of the Québec Companies Act, as authorized by Order-in-Council 699-2000, dated June 7, 2000, under section 36 of the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1), is a wholly-owned subsidiary of Investissement Québec and, as such, is not subject to income tax. It coordinates the collection, management and investment of sums of money belonging to investor immigrants. 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 business plan that includes the activities of its subsidiaries and whose form, content and frequency are set by the Gouvernement du Québec. This plan was approved on September 22, 2004 (Order-in-Council 878-2004) and terminates on March 31, 2007.

2. MAIN ACCOUNTING PRINCIPLES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Cash and cash equivalents

Under cash and cash equivalents comprise cash and short-term investments maturing within three months’ of their acquisition date.

Investments

Notes receivable from the Gouvernement du Québec are recorded at cost and purchase discounts are transferred to results using the effective interest method until their maturity.

Other investments are recorded at acquisition cost and, where applicable, the discounts and premiums are transferred to results using the straight-line method of discount amortization until their maturity date.

Financial intermediaries’ fees

The Corporation pays fees to financial intermediaries for canvassing investor immigrants, seeking businesses to recommend for non-refundable financial contributions and closing investor immigrants’ files.

Fees related to canvassing investor immigrants and seeking businesses to recommend are posted when the Corporation accepts the financial intervention. Fees related to canvassing investor immigrants are deferred and transferred to results over a period corresponding to the duration of investments, i.e. five years, according to the straight-line method. Fees related to closing the investor immigrants’ files are posted the date the file is closed.

Financial contribution management fees – Parent company

The Corporation pays fees to a parent company for analyzing and authorizing non-refundable financial contributions recommended by a financial intermediary and for the authorizing disbursement of these contributions.

Fees related too analysis and authorization are posted when the Corporation accepts the financial intervention. Fees related to disbursements are recorded when each one is authorized.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

2. MAIN ACCOUNTING PRINCIPLES (cont'd)**Financial contributions**

Non-refundable financial contributions granted to businesses under the “Programme des immigrants investisseurs pour l’aide aux entreprises” are posted to results for the fiscal year in which the Corporation authorized the disbursement.

Financial contributions to Emploi-Québec under the “Programme d’aide à l’intégration des immigrants et des minorités visibles en emploi” are posted to results for the fiscal year in which Emploi-Québec issued the claim to the Corporation.

Administrative fees – Parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share of administrative costs and certain common costs of the parent company attributable to the Corporation. These fees are recorded on an accrual basis.

Conversion of currency

The monetary assets and liabilities in foreign currency are converted into Canadian dollars at the exchange rate in effect on the date of the financial statements. Revenues and expenses in foreign currency are, for their part, 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 FOLLOWING RECENT ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION**Financial instruments**

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 main effects of these standards are the following:

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.

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.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

3. CHANGES IN ACCOUNTING POLICIES FOLLOWING RECENT ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION (cont'd)

The Société is analyzing the incidences of the application of these new standards on its financial statements.

4. SHORT-TERM INVESTMENTS

	<u>2006</u>	<u>2005</u>
Short-term investments maturing within three months of their acquisition date:		
Investment certificates, 3.75% maturing in April 2006	2 605	7 699
Canadian T-bills		1 492
Canadian T-bills, maturing more than three months after their acquisition date		<u>397</u>
	<u>2 605</u>	<u>9 588</u>

5. INVESTMENTS

	<u>2006</u>	<u>2005</u>
Gouvernement du Québec notes receivable, 3.47% to 6.01%, maturing between April 2006 and March 2011, nominal value: \$2.3 billion	2 071 153	1 561 067
Bonds and other debt instruments, 3.40% to 11.00%, maturing between November 2006 and March 2016, nominal value: \$99.3 million	103 766	102 335
Money market securities – mutual funds	34 969	34 539
Shares and other equity interest	<u>35 574</u>	<u>33 021</u>
	<u>2 245 462</u>	<u>1 730 962</u>

The amount of investments in US dollars totalled \$10.3 million CAN at March 31, 2006 (\$8.6 million CAN at March 31, 2005).

The amount of investments details as follows:

2007	188 774
2008	332 616
2009	528 987
2010	656 921
2011 and after	<u>467 621</u>
	2 174 919
No maturity date	<u>70 543</u>
	<u>2 245 462</u>

6. SHORT-TERM BORROWINGS

At March 31, 2006, the Corporation had a bank credit line of \$2 000 M renewable in July 2006. The amounts used bear interest at the basic lending rate.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

7. LONG-TERM BORROWINGS

	<u>2006</u>	<u>2005</u>
Notes – investor immigrants, interest-free, maturing between April 2006 and April 2011 ⁽¹⁾	<u>2 291 600</u>	<u>1 793 200</u>

The capital payments to make on long-term borrowings details as follows:

2007	184 800
2008	324 800
2009	544 000
2010	713 600
2011	524 000
2012	<u>400</u>
	<u>2 291 600</u>

(1) Capital payments are guaranteed by the Québec.

8. CAPITAL-STOCK

Authorized

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

	<u>2006</u>	<u>2005</u>
Issued and paid 1 000 class A shares	<u>1</u>	<u>1</u>

9. REVENUES

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest on Gouvernement du Québec notes receivable	79 056	54 345	30 985
Other investment income	6 128	5 193	1 857
Gain on disposal of investments	1 165	887	504
Interest on cash and short-term investment income	185	173	1 683
Unrealized exchange loss on investments	<u>(284)</u>	<u>(629)</u>	<u></u>
	<u>86 250</u>	<u>59 969</u>	<u>35 029</u>

10. FINANCIAL CONTRIBUTIONS

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Non-refundable financial contributions	34 857	20 968	10 755
Financial contributions – Emploi-Québec	<u>2 609</u>	<u></u>	<u></u>
	<u>37 466</u>	<u>20 968</u>	<u>10 755</u>

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

11. ADMINISTRATIVE FEES – PARENT COMPANY

Administrative fees for:

	2006	2005	2004
Salaries and fringe benefits	222	223	302
Rent	23	20	26
Travel, entertainment, advertising and promotion	28	26	12
Fees	30	8	15
Depreciation of fixed assets and intangible assets for a specific service life	6	7	21
Other	19	20	15
	<u>328</u>	<u>304</u>	<u>391</u>

12. CHANGE IN NON-CASH ELEMENTS LINKED TO OPERATING ACTIVITIES

	2006	2005	2004
Interest and dividends receivable in investments	22	(688)	(1 117)
Fees payable to the parent company	(61)	241	217
Fees payable to a related corporation, La Financière du Québec		(204)	189
Financial contributions payable to Emploi-Québec	2 609		
Other elements of liabilities	(285)	(103)	(88)
	<u>2 285</u>	<u>(754)</u>	<u>(799)</u>

13. 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 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.

The table below shows the fair value of the financial instruments presented in the financial statements, established using the evaluation methods and assumptions described below. The fair value of the assets and liabilities not considered financial instruments, i.e. deferred financial intermediaries' fees, is not included in the table.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**Financial instruments shown in the financial statements**

	2006			2005		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets						
Cash on hand and short-term investments	2 649	2 649		9 860	9 860	
Investments	2 245 462	2 244 118	(1 344)	1 730 962	1 762 962	32 000
Other assets	1 783	1 783		1 805	1 805	
	<u>2 249 894</u>	<u>2 248 550</u>	<u>(1 344)</u>	<u>1 742 627</u>	<u>1 774 627</u>	<u>32 000</u>
Liabilities						
Long-term borrowings	2 291 600	2 025 004	266 596	1 793 200	1 573 698	219 502
Other liabilities	3 886	3 886		1 623	1 623	
	<u>2 295 486</u>	<u>2 028 890</u>	<u>266 596</u>	<u>1 794 823</u>	<u>1 575 321</u>	<u>219 502</u>
			<u>265 252</u>			<u>251 502</u>

The fair value of the financial instruments shown in the financial statements has been estimated using the following evaluation methods and assumptions:

Cash and short-term investments, others assets and liabilities

Because they mature in the short term, the fair value of cash and short-term investments maturing within three months of their acquisition date, other assets and liabilities is considered to be their book value.

The fair value of short-term investments maturing after three months of their acquisition date is estimated by capitalizing cash flows using market interest rates applying to investments with similar credit and risk conditions.

Investments

The fair value of investments in securities is determined based on market prices. The fair value of notes receivable from the Gouvernement du Québec is estimated by assessing cash flows using market interest rates applying to investments with similar credit and risk conditions.

Long-term borrowings

The fair value of borrowings is determined using market prices for debt instruments with similar credit and risk conditions.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousand of dollars)

14. 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 variations in interest rates.

The Corporation's sensitivity to interest-rate variations at March 31 breaks down as follows:

	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	2 605				44	2 649
Real interest rate	3,8%					
Investments	22 200	166 573	1 979 075	7 071	70 543	2 245 462
Real interest rate	5,8%	5,1%	4,2%	4,7%		
Other assets					80 340	80 340
	<u>24 805</u>	<u>166 573</u>	<u>1 979 075</u>	<u>7 071</u>	<u>150 927</u>	<u>2 328 451</u>
Liabilities and equity						
Interest-free borrowings	21 600	163 200	2 106 400	400		2 291 600
Other liabilities					3 886	3 886
Equity					32 965	32 965
	<u>21 600</u>	<u>163 200</u>	<u>2 106 400</u>	<u>400</u>	<u>36 851</u>	<u>2 328 451</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>	
Difference in sensitivity for 2005	<u>9 390</u>	<u>125</u>	<u>(133 773)</u>	<u>4 048</u>	<u>120 210</u>	

15. COMMITMENTS

In the normal course of business, the Corporation contracts various commitments. These represent the amounts of non-refundable financial contributions whose disbursement has not been authorized and the amounts allocated to financial contributions to Emploi-Québec and to the Ministère de l'Immigration et des Communautés culturelles. 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.

Moreover, the Corporation agreed to pay fees to financial intermediaries for canvassing for immigrant investors, seeking out companies to recommend and closing immigrant investor files.

The amount of the commitments detail as follows:

	2006	2005
Non-refundable financial contributions	140 389	127 361
Financial contributions– Emploi-Québec	1 507	
Financial contributions– Ministère de l'Immigration et des Communautés culturelles	199	
Financial intermediaries' fees	<u>24 339</u>	<u>17 578</u>
	<u>166 434</u>	<u>144 939</u>

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousand of dollars)

15. COMMITMENTS (cont'd)

Future estimated disbursements resulting from these commitments detail are as follows:

2007	64 010
2008	43 790
2009	33 223
2010	19 996
2011	5 415
	166 434

16. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of its activities and under normal business conditions. All of these operations, reported at exchange value, were disclosed separately in the financial statements.

17. COMPARATIVE FIGURES

Certain 2004 and 2005 figures were reclassified for consistency with the presentation adopted in 2006.

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, 2006 and the revenues, retained earnings and cash flow statements for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the IQ Immigrants Investisseurs inc.'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 accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 24, 2006

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., c. L-0.1)

CONSOLIDATED RESULTS
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Gouvernement du Québec contribution (Note 4)	306 227	306 401
Special Gouvernement du Québec contribution (Note 5)	10 000	10 000
Government of Canada contribution (Note 6)	353 214	268 856
Administrative fees	4 453	4 010
Interest and investment income	21 239	13 154
Other revenues	345	154
	<u>695 478</u>	<u>602 575</u>
EXPENSES		
Contribution to the:		
Farm Income Stabilization Insurance Fund	260 840	255 137
Crop Insurance Fund	29 770	31 679
Farm and Forestry Loan Insurance Fund	9 781	10 433
Farm Income Stabilization Account	12	1 860
Contribution to payment of the Canadian Agricultural Income Stabilization Program (Note 7)	293 747	126 306
Contribution to interest payments	1 808	3 038
Subvention – Young farmers' financial support program	10 725	9 776
Special federal programs (Note 8)	73 801	82 672
Compensation under bovine spongiform encephalopathy recovery programs	(215)	319
Flue-cured tobacco productive acreage withdrawal program	4 623	
Agroenvironmental and agricultural-environment wildlife habitat development incentive measures program	4	
Contribution to financing of organizations	2 100	1 277
Administrative expenses (Note 9)	53 971	64 482
Interest	8 109	6 388
Loss in value on investments	283	884
	<u>749 359</u>	<u>594 251</u>
(INSUFFICIENT) SURPLUS REVENUES OVER EXPENSES BEFORE SHARE	(53 881)	8 324
SHARE IN SATELLITE CORPORATION LOSS	<u>200</u>	<u>275</u>
(INSUFFICIENT) SURPLUS REVENUES OVER EXPENSES	<u>(54 081)</u>	<u>8 049</u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED SURPLUS
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPENING SURPLUS	108 792	100 743
(INSUFFICIENT) SURPLUS REVENUES OVER EXPENSES	<u>(54 081)</u>	<u>8 049</u>
CLOSING SURPLUS	<u>54 711</u>	<u>108 792</u>
Year-end surplus includes:		
Surplus assigned to General Fund (Note 10)	54 711	88 372
Unappropriated surplus	<u> </u>	<u>20 420</u>
	<u>54 711</u>	<u>108 792</u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at March 31, 2006

(in thousands of dollars)

	2006	2005
ASSETS		
Current assets		
Cash	35	7 018
Short-term investments (Note 11)	16 448	33 086
Accounts receivable and accrued interest	2 724	1 850
Advances to participants		29 867
Fédération des producteurs acéricoles du Québec receivable (Note 12)	32 000	30 000
Farm Income Stabilization Insurance Fund receivable (Note 13)	416 775	390 617
Gouvernement du Québec receivable (Note 14)	1 115	1 785
Government of Canada receivable (Note 15)	66 311	38 855
Payments receivable on loans (Note 16)	1 376	1 551
Payments receivable on investments (Note 17)	374	235
	<u>537 158</u>	<u>534 864</u>
Gouvernement du Québec receivable (Note 14)	4 311	5 426
Loans (Note 16)	7 893	10 442
Investments (Note 17)	5 073	4 201
Fixed assets (Note 18)	1 127	1 192
Intangible assets (Note 19)	2 181	2 222
	<u><u>557 743</u></u>	<u><u>558 347</u></u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET (cont'd)
as at March 31, 2006
(in thousands of dollars)

	2006	2005
LIABILITIES		
Current liabilities		
Bank loans (Note 20)	307 237	310 977
Accounts payable and accrued liability (Note 21)	49 475	24 422
Deferred federal assistance (Note 22)	21 988	16 204
Owing to the Gouvernement du Québec	132	448
Owing to the Government of Canada	141	256
Owing to the Fund (Note 23)	23 902	38 300
Provision for contribution to payment of the Canadian Agricultural Income Stabilization Program (Note 7)	65 277	14 362
Provision for compensation under bovine spongiform encephalopathy recovery programs		229
Provision for vacation pay	4 711	4 650
	<u>472 863</u>	<u>409 848</u>
Gouvernement du Québec advance (Note 24)	16 194	16 194
Deferred special Gouvernement du Québec contribution		10 000
Provision for sick leave (Note 25)	<u>13 975</u>	<u>13 513</u>
	503 032	449 555
SURPLUS	<u>54 711</u>	<u>108 792</u>
	<u><u>557 743</u></u>	<u><u>558 347</u></u>

COMMITMENTS (Note 29)

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED CASH FLOW
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
(Insufficient) surplus revenues over expenses	(54 081)	8 049
Cash flow-neutral elements:		
Capitalized interest on investments	(143)	(272)
Amortization of fixed assets	726	734
Amortization of intangible assets	761	738
(Gain) loss in disposal of fixed assets	(4)	23
Loss in value on investments	283	883
Share of satellite corporation loss	200	275
Variation in the deferred special Gouvernement du Québec contribution	(10 000)	(10 000)
Variation in deferred Government assistance		(66)
	<u>(62 258)</u>	<u>364</u>
Variation in non-cash elements linked to operations:		
Accounts payable and accrued interest	(874)	(1 213)
Advances to participants	29 867	(29 867)
Fédération des producteurs acéricoles du Québec receivable	(2 000)	(9 000)
Farm Income Stabilization Insurance Fund receivable	(26 158)	(64 471)
Gouvernement du Québec receivable	1 785	17 185
Government of Canada receivable	(27 456)	(9 516)
Prepaid expenses		778
Assets destined for sale		370
Accounts payables and accrued liability	25 238	10 854
Deferred federal assistance	5 784	5 204
Owing to the Gouvernement du Québec	(316)	302
Owing to the Government of Canada	(115)	(6 706)
Owing to the Fund	(14 398)	(69 682)
Provision for Canadian Farm Income Program compensation		(2 065)
Provision for contribution to payment of the Canadian Agricultural Income Stabilization Program	50 915	14 362
Provision for compensation under bovine spongiform encephalopathy recovery programs	(229)	(32 262)
Provision for vacation time	61	217
Provision for sick leave	462	557
	<u>42 566</u>	<u>(174 953)</u>
Cash flows linked to operating activities	<u>(19 692)</u>	<u>(174 589)</u>
INVESTMENT ACTIVITIES		
Cashing of loans	2 724	3 001
Acquisition of investments	(1 693)	(1 995)
Cashing of debenture investments	342	21
Acquisition of fixed assets	(846)	(631)
Acquisition of intangible assets	(720)	(733)
Proceeds from the disposal of fixed assets	4	1
Cash flows linked to investment activities	<u>(189)</u>	<u>(336)</u>
Amounts carried forward	<u>(19 881)</u>	<u>(174 925)</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED CASH FLOW (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Amounts brought forward	<u>(19 881)</u>	<u>(174 925)</u>
FINANCING ACTIVITIES		
Gouvernement du Québec advance		66
Short-term borrowings	<u>(3 740)</u>	<u>111 277</u>
Cash flows related to financing activities	<u>(3 740)</u>	<u>111 343</u>
NET VARIATION IN CASH AND CASH EQUIVALENTS	<u>(23 621)</u>	<u>(63 582)</u>
OPENING CASH AND CASH EQUIVALENTS	<u>40 104</u>	<u>103 686</u>
CLOSING CASH AND CASH EQUIVALENTS	<u>16 483</u>	<u>40 104</u>
 Closing cash and cash equivalents include:		
	<u>2006</u>	<u>2005</u>
Cash	35	7 018
Short-term borrowings	<u>16 448</u>	<u>33 086</u>
	<u>16 483</u>	<u>40 104</u>
 Additional cash-flow information:		
Interest paid	<u><u>7 157</u></u>	<u><u>4 774</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION INSURANCE FUND****RESULTS AND DEFICIT**

for the year ended March 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Participants' contributions (Note 26)	130 420	127 569
La Financière agricole du Québec contribution (Note 26)	260 840	255 137
Interest and investment income	<u>267</u>	<u>297</u>
	<u>391 527</u>	<u>383 003</u>
EXPENSES		
Compensation to participants (Note 26)	436 322	316 516
Interest	<u>13 598</u>	<u>8 087</u>
	<u>449 920</u>	<u>324 603</u>
(INSUFFICIENT) SURPLUS REVENUES OVER EXPENSES	(58 393)	58 400
OPENING DEFICIT	<u>(313 991)</u>	<u>(372 391)</u>
CLOSING DEFICIT	<u>(372 384)</u>	<u>(313 991)</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	86	83
Accounts receivable and accrued interest	4 766	10 583
La Financière agricole du Québec contribution receivable (Note 23)	4 560	19 831
Advances to participants (Note 27)	<u>225 674</u>	<u>187 799</u>
	<u>235 086</u>	<u>218 296</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liability (Note 21)	13 890	4 755
Owing to La Financière agricole du Québec (Note 13)	416 775	390 617
Unearned contributions	111 379	90 605
Provision for compensation	<u>65 426</u>	<u>46 310</u>
	607 470	532 287
DEFICIT (Note 33)	<u>(372 384)</u>	<u>(313 991)</u>
	<u>235 086</u>	<u>218 296</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****RESULTS AND SURPLUS**
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Participants' contributions	20 044	21 756
La Financière agricole du Québec contribution	29 770	31 679
Variation in decline in value of investments	4 149	3 138
Interest and investment income (Note 28)	<u>2 573</u>	<u>2 919</u>
	<u>56 536</u>	<u>59 492</u>
EXPENSES		
Compensation to participants	58 877	56 383
Interest on allowances	<u>4</u>	<u>4</u>
	<u>58 881</u>	<u>56 387</u>
(INSUFFICIENT) SURPLUS REVENUES OVER EXPENSES	(2 345)	3 105
OPENING SURPLUS	<u>74 462</u>	<u>71 357</u>
CLOSING SURPLUS	<u><u>72 117</u></u>	<u><u>74 462</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash	93	239
Short-term investments		4 398
Accounts receivable and accrued interest	957	513
La Financière agricole du Québec contribution receivable (Note 23)	<u>16 394</u>	<u>13 649</u>
	17 444	18 799
Investments (Note 17)	<u>66 743</u>	<u>66 856</u>
	<u><u>84 187</u></u>	<u><u>85 655</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liability	114	154
Unearned contributions	569	662
Deferred federal contribution (Note 22)	7 884	7 884
Provision for compensation	<u>3 503</u>	<u>2 493</u>
	12 070	11 193
SURPLUS	<u>72 117</u>	<u>74 462</u>
	<u><u>84 187</u></u>	<u><u>85 655</u></u>

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION ACCOUNT FUND**

CHANGE IN FUND BALANCE
for the year March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	4 820	25 304
Participants' contributions		2 192
La Financière agricole du Québec contribution	12	1 860
Government of Canada transitional assistance	1	(60)
Interest distributed in participant accounts	45	115
Participant withdrawals	<u>(1 930)</u>	<u>(24 591)</u>
CLOSING BALANCE	<u>2 948</u>	<u>4 820</u>

BALANCE SHEET
as at March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
La Financière agricole du Québec contribution receivable (Note 23)	<u>2 948</u>	<u>4 820</u>
LIABILITIES		
Current liabilities		
Participant accounts	<u>2 948</u>	<u>4 820</u>

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
Laurent Pellerin, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

La Financière agricole du Québec is a legal entity, an agent of the State, incorporated under the Act respecting La Financière agricole du Québec, (R.S.Q., c. L-0.1). La Financière agricole du Québec is managed in partnership with the agricultural sector and its main mission is to support and promote, from a sustainable development viewpoint, agricultural and agrifood sector development. It offers operations income protection, insurance, investment and farm/forestry financing products and services adapted to the management of risks inherent in this activity sector.

Further, La Financière agricole administers the Farm and Forestry Loan Insurance Fund, assuming the insurance fees payable for the Fund.

2. DESCRIPTION OF PROGRAMS

I) Farm Income Stabilization Insurance Program

The Farm Income Stabilization Insurance Program offers farm operations protection against fluctuating market prices. Its goal is to guarantee them a positive net annual income. For this purpose, compensation is paid to the participant when the net annual income falls short of the net annual stabilised income.

II) Crop Insurance Program

The Crop Insurance Program was set up to enable farm operations to insure themselves against the loss of crop yields due to uncontrollable risks not caused by human intervention.

III) Farm Income Stabilization Account

The Farm Income Stabilization Account program is designed to offer Québec farm operations a risk management tool based on overall income earned from their operation. Following the implementation of the Canadian Agricultural Income Stabilization Program, La Financière agricole terminated its program in 2002. Participants have five years to make withdrawals from their account with a minimum annual withdrawal of 20% of the Government contribution established at February 1, 2005.

The interest paid into participants' accounts is calculated using the reference rate for one-year guaranteed investment certificates.

IV) Bovine Spongiform Encephalopathy (BSE) Recovery Program

The Bovine Spongiform Encephalopathy (BSE) Recovery Program established under a Canada-Québec agreement offers financial assistance to the farm clientele affected by mad cow disease. This program comprises the following three phases:

In phase 1, the program covers the period May 20 to August 31, 2003 providing for slaughter support for producers of cattle and other ruminants, which is paid according to the formula 60% federal government and 40% Québec government.

In phase 2, the Cull Animal Program offers financial assistance to dairy producers, feeder calf producers and producers of other ruminants to offset severely depressed market prices. This program applies to livestock owned as at September 1, 2003. Program costs are paid according to the formula 60% federal government and 40% provinces.

Phase 3 of the program consists in supporting producers in withdrawing from production lines eligible cattle fattened for a period of up to 120 days and feeder calves eligible on the start-up. The costs related to this program are assumed by the federal government (60%) in the form of premium discounts granted operations participating in the Farm Income Insurance Stabilization Program and the Québec government (40%) through the payment of its contribution to the Insurance Fund.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)**V) 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. The Canadian and Québec governments assume 60% and 40% respectively of the overall program cost.

VI) Flue-cured tobacco productive acreage withdrawal program

The Flue-cured tobacco productive acreage withdrawal program is designed to offer financial support to eligible operations withdrawing from the production of flue-cured tobacco and to promote their reorientation to alternative crops. This program applies to operations participating in the Crop Insurance Program for the 2003 insurance year and is in effect from April 1, 2005 to March 31, 2007.

VII) Farm income payments program

The Farm income payments program is designed to attenuate farmers' problem of liquid assets and to 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.

VIII) 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.

IX) 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.

X) 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.

XI) Young farmers' financial support program

The Young farmers' financial support program is designed to promote farm operation supervision and start-up, to make it easier for young farmers to get started, to encourage them to acquire proper training and to promote development of farm operations through an additional contribution for interest payments or capital subsidies.

XII) 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.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

2. DESCRIPTION OF PROGRAMS (cont'd)

XIII) Beekeepers financing assistance program

The Beekeepers financing assistance program is designed to promote rebuilding of bee colonies struck by varroasis in 2002-2003. This financial assistance takes the form of a special contribution for interest payments.

XIV) 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.

XV) 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.

XVI) Forestry financing program

La Financière agricole administers the forestry financing program for the Ministère des Ressources naturelles et de la Faune du Québec. This program is designed to make it easier for farm operations to obtain funding from financial institutions by authorizing loan guarantees through the Farm and Forestry Loan Insurance Fund in order to support the creation, maintenance or development of forest production units.

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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. Major estimates include the service life of fixed assets and intangible assets, provisions and certain expenses payable. Management deems these estimates to be adequate. The real results may differ from these estimates.

Cash flow statements

The cash flow statements for the funds administered by La Financière agricole are not presented since they would not provide additional useful information for understanding cash flows in the fiscal year.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**LA FINANCIÈRE AGRICOLE DU QUÉBEC****Consolidation perimeter**

The consolidated financial statements reflect the accounts of La Financière agricole and its subsidiary, Capital Financière agricole inc.

The Crop Insurance Fund and Farm Income Stabilization Fund are not consolidated since they are separate trust funds under section 70 of the Act respecting La Financière agricole du Québec. Similarly, the Farm Income Stabilization Account is not consolidated since it constitutes a trust fund administered by La Financière agricole under section 37 of its program, as permitted by section 22 of the Act respecting La Financière agricole du Québec.

Short-term investments

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

Investments

Venture-capital investments take the form of capital stock or debentures. La Financière agricole records its investments at consolidation value when its share in an issuing corporation's voting shares enable it to significantly influence this satellite corporation's financial and administrative decisions. Capital-stock investments in which La Financière agricole exercises no control or notable influence, and debentures are recorded at acquisition cost plus interest accrued. Investments are reduced by all permanent declines in value and provisions for losses, where applicable.

When the quality of the credit of a debenture investment has deteriorated to the point that the 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 judgement of Corporation management.

The provision is established through a case-by-case analysis and recorded as soon as the losses can be reasonably evaluated. The annual change in this provision is recorded in the consolidated statement of income.

Fixed assets

Fixed assets, comprising material and equipment, are recorded at acquisition cost and amortized over their service life using the straight-line method at 10%, 20% and 33.33%.

Intangible assets

Intangible assets, representing the costs related to computer systems development, are recorded at cost and amortized over their estimated service life using the straight line method at 20%.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

LA FINANCIÈRE AGRICOLE DU QUÉBEC (cont'd)

Contributions, allowances and transfer payments

Contributions, allowances and transfer payments are posted to expenditures for the fiscal year when authorized and when the beneficiary has met all the eligibility criteria.

Pension plans

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

Cash and cash equivalents

La Financière agricole's policy consists of presenting, as cash and cash equivalents, bank balances 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.

FARM INCOME STABILIZATION INSURANCE FUND AND CROP INSURANCE FUND

Contributions, compensation and transfer payments

Contributions, compensation from the Farm Income Stabilization Insurance Program and allowances under the Crop Insurance Program are posted to PRODUITS or CHARGES for the fiscal year in which the insurance year ends.

The year 2005 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 33.

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. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The Québec Minister of Agriculture, Fisheries and Food and La Financière agricole du Québec signed a seven-year agreement, which came into effect on April 1, 2001. Under this agreement, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec pays to and for the benefit of the Corporation an annual amount of \$305 million.

The Minister of Natural Resources and Wildlife of Québec and La Financière agricole du Québec signed a three-year agreement that took effect on April 1, 2004. Under it, the Department pays for an on behalf of the Corporation an annual amount of \$1 400 M.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

4. GOUVERNEMENT DU QUÉBEC CONTRIBUTION (cont'd)

	<u>2006</u>	<u>2005</u>
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec contribution under agreement:		
bovine spongiform encephalopathy recovery programs	305 000 (173)	305 000 1
Ministère des Ressources naturelles et de la Faune du Québec contribution	<u>1 400</u>	<u>1 400</u>
	<u><u>306 227</u></u>	<u><u>306 401</u></u>

5. SPECIAL GOUVERNEMENT DU QUÉBEC CONTRIBUTION

On April 9, 2001, the Gouvernement du Québec paid a special contribution of \$50 million to set up a reserve to reduce future La Financière agricole contributions to the Farm Income Stabilization Insurance Fund. This amount is amortized using the straight-line method over five years.

6. GOVERNMENT OF CANADA CONTRIBUTION

The Government of Canada contribution is established in keeping with the following agreements:

	<u>2006</u>	<u>2005</u>
Federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century:		
production insurance for:		
contribution to the insurance plan	17 452	18 969
contribution to administration	8 332	8 673
Canadian Agricultural Income Stabilization Program for:		
contribution to payment (Note 7)	176 248	75 784
contribution to administration	5 011	10 905
provincial programs	<u>30 400</u>	<u>60 900</u>
	<u>237 443</u>	<u>175 231</u>
Federal-provincial agreement establishing the Canada Farm Income Program		<u>48</u>
Canada-Québec agreement on an additional federal contribution to the Farm Income Insurance-Stabilization Plan		<u>(49)</u>
Canada-Québec agreement on transitional assistance:		
contribution to the Farm Income Stabilization Insurance Program		118
contribution to operations having participated in the Farm Income Stabilization Account	<u>(29)</u>	<u>12 830</u>
	<u>(29)</u>	<u>12 948</u>
Amounts carried forward	<u>237 414</u>	<u>188 178</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

6. GOVERNMENT OF CANADA CONTRIBUTION (cont'd)

	2006	2005
Amounts brought forward	237 414	188 178
Canada-Québec agreement establishing the bovine spongiform encephalopathy recovery program		
Phase 1 and 2: contribution to program and to administration	(42)	213
Phase 3: contribution to Farm Income Stabilization Insurance Program	6 431	
contribution to administration	28	
	6 417	213
Canada-Québec agreement on transitional assistance to the industry for:		
overall financial assistance for:		
contribution to the Farm Income Stabilization Insurance Program		10 213
contribution to operations having participated in the Farm Income Stabilization Account		5 216
payment for livestock	(17)	64 445
contribution to administration	17	591
		80 465
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	18 095	
payment for livestock	16 487	
contribution to administration	217	
	70 122	
Canada-Québec agreement on the grain and oilseed producers payments programs on:		
contribution to the program	39 234	
contribution to administration	27	
	39 261	
	353 214	268 856

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

6. GOVERNMENT OF CANADA CONTRIBUTION (cont'd)

The federal contribution was allocated to the following programs:

	2006	2005
Farm Income Stabilization Insurance Program	72 182	71 182
Crop Insurance Program	25 784	27 642
Canada Farm Income Program		48
Canadian Agricultural Income Stabilization Program	181 259	86 689
Bovine Spongiform Encephalopathy Recovery Program	(42)	213
Government of Canada transition assistance program	(29)	12 830
Industry transition assistance program		70 252
Farm Income Payments Program	34 799	
Grain and Oilseed Producers Payments Program	39 261	
	<u>353 214</u>	<u>268 856</u>

The Government of Canada reimburses 60% of the administrative costs of the Crop Insurance Program, the Bovine Spongiform Encephalopathy Recovery Program and the Canadian Agricultural Income Stabilization Program. It also reimburses the administrative costs of industry transition assistance, farm income payments and grain and oilseed producers payments programs, according to the terms and conditions governing each program.

7. CONTRIBUTION TO PAYMENT OF THE CANADIAN AGRICULTURAL INCOME STABILIZATION PROGRAM

	2006	2005
2003 participation year	92 916	125 487
2004 participation year	180 432	819
2005 participation year	18 661	
2006 participation year	1 738	
	<u>293 747</u>	<u>126 306</u>

At March 31, 2006, all files received had been processed or an estimate made. Measurements for the estimates of the PCSRA provision and the Government of Canada contribution were uncertain. These estimate can significantly change in future if the information used by management to establish the evaluations were to change considerably. The program cost may be higher than the estimated amount since the evaluation is performed before all of the information needed to process a claim is validated.

At March 31, 2005, more than 70% of the files for the 2003 participation year had been processed and close to half had received a government contribution. The program cost for files that had not been processed at this date, given that it was impossible to establish a reasonable estimate that date the financial statements for last year were prepared, were reported in this fiscal year along with the revenues for the related federal contribution.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

8. SPECIAL FEDERAL PROGRAMS

	2006	2005
Industry transition assistance program	(17)	69 661
Government of Canada transition assistance program	(29)	12 830
Canadian Farm Income Program		107
Farm Income Stabilization Account	31	74
Farm Income Payments Program	34 582	
Grain and Oilseed Producers Payments Program	39 234	
	<u>73 801</u>	<u>82 672</u>

Instalments under the Farm Income Payments Program were paid:

To operations having participated in the Farm Income Stabilization Account	18 095
To bovine-sector operations	<u>16 487</u>
	<u>34 582</u>

Moreover, an amount of \$17 662 M was allocated to Farm Income Stabilization Insurance Program participants as a discounted on the premium for the 2004-2005 program year. Almost all of the discount was granted in the current fiscal year.

9. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	41 192	42 134
Transport and communication	2 970	4 134
Rent	3 430	3 389
Professional administrative and other services	2 538	10 349
Materials and supplies	1 148	824
Amortization of fixed assets	726	734
Amortization of intangible assets	761	738
Maintenance and repairs	221	308
New layout expenses	985	1 872
	<u>53 971</u>	<u>64 482</u>

Administrative expenses break down as follows:

	2006	2005
Farm Income Insurance Stabilization Program	8 538	8 181
Crop Insurance Program	13 886	14 387
Canadian Agricultural Income Stabilization Program	9 951	19 107
Forest and Farm Financing	19 937	19 879
Farm Income Stabilization Account	193	1 033
Industry transitional assistance program		804
BSE Recovery Program	46	37
Farm Income Payments Program	363	
Grain and Oilseed Producers Payments Program	45	
Capital Financière agricole inc.	1 012	1 054
	<u>53 971</u>	<u>64 482</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

10. SURPLUS APPROPRIATED TO THE 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 \$98 834 M at March 31, 2006, the latter may not exceed the surplus at this date. The general reserve totalled \$54 711 M at March 31, 2006.

11. SHORT-TERM INVESTMENTS**La Financière agricole du Québec**

	2006	2005
Bonds		18 877
Banker's acceptance, 3.82%, maturing April 25, 2006	3 690	
Commercial papers, 3.89% to 4.05%, maturing up to June 19, 2006	12 693	13 981
Caisse de dépôt et placement du Québec: Demand deposits, 3.75%	65	228
	<u>16 448</u>	<u>33 086</u>

12. FÉDÉRATION DES PRODUCTEURS ACÉRIQUES DU QUÉBEC RECEIVABLE

On March 16, 2006, La Financière agricole and the Fédération des producteurs acéricoles du Québec signed a new credit agreement for a maximum amount of \$100 million (2005: \$100 million). This special financing measure is designed to fund the operations of a sales agency for the maple products sector, whose activities are related to the Fédération des producteurs acéricoles du Québec.

	2006	2005
Bearing interest at the prime rate minus 0.25%, maturing February 28, 2007	<u>32 000</u>	<u>30 000</u>

13. FARM INCOME STABILIZATION INSURANCE FUND RECEIVABLE

	2006	2005
Bearing interest at rates varying between 3.74% and 4.18% maturing June 29, 2006, repayable at maturity	<u>416 775</u>	<u>390 617</u>

14. GOUVERNEMENT DU QUÉBEC RECEIVABLE

	2006	2005
Contributions receivable – BSE programs		670
Accumulated sick leave paid by the Gouvernement du Québec	<u>5 426</u>	<u>6 541</u>
	5 426	7 211
Portion maturing in the short-term	<u>(1 115)</u>	<u>(1 785)</u>
	<u>4 311</u>	<u>5 426</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

15. GOUVERNEMENT DU CANADA RECEIVABLE

	2006	2005
Federal-Provincial-Territorial framework agreement on the farm and agrifood strategic framework for the 21st century on:		
Production insurance		6 153
Canadian Agricultural Income Stabilization Program (Note 7)	65 850	32 585
Canada-Québec agreement on the Farm Income Payments Program	233	
Canada-Québec agreement on industry transition assistance	173	57
Canada-Québec agreement on the Grain and Oilseed Producers Payments Program	27	
Canada-Québec agreement setting up the BSE Recovery Program	28	17
Canada-Québec agreement on transition assistance		43
	<u>66 311</u>	<u>38 855</u>

16. LOANS

	2006	2005
Balance of loans bearing interest at rates of:		
2.5%	3 933	4 984
5%	911	1 284
7%	920	1 134
8%	3 327	4 388
Prime rate plus 0.5%	178	203
	<u>9 269</u>	<u>11 993</u>
Portion maturing in the short term	<u>(1 376)</u>	<u>(1 551)</u>
	<u>7 893</u>	<u>10 442</u>
Balance of loans maturing in:		
	2006	2005
Less than 1 year	80	83
between 1 and 5 years	1 637	1 942
5 years and more	7 552	9 968
	<u>9 269</u>	<u>11 993</u>

Capital and interest are guaranteed by the Gouvernement du Québec's Consolidated Revenue Fund or the Farm and Forestry Loan Insurance Fund. These loans were granted under the Farm Credit Act and the Forestry Credit Act, which were no longer effective as of August 10, 1988 and June 29, 1984 respectively, and will mature no later than 2019 and 2038.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

17. INVESTMENTS**La Financière agricole du Québec**

	2006	2005
Common shares –investments	1 300	339
Common shares – satellite corporation	200	200
	<u>1 500</u>	<u>539</u>
Debentures, 9% to 15%, maturing up to September 2014		
Capital and capitalizable interest are cashable as follows:		
\$374 442 in 2007, \$604 431 in 2008,		
\$678 657 in 2009, \$722 806 in 2010		
and \$1 567 049 in future fiscal years	4 186	4 625
Provision for losses	<u>(239)</u>	<u>(728)</u>
	3 947	3 897
Portion maturing in the short-term	<u>(374)</u>	<u>(235)</u>
	<u>3 573</u>	<u>3 662</u>
	<u>5 073</u>	<u>4 201</u>

At March 31, 2006, debentures posted under a provision for losses totalled \$389 M (2005: \$728 M).

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 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.

	2006	2005
Participation deposits at fair value	<u>66 743</u>	<u>66 856</u>

18. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Equipment	3 049	1 922	1 127	1 192

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

19. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Computer development	6 301	4 120	2 181
			2 222

20. SHORT-TERM BORROWINGS

	2006	2005
Bankers' acceptances	7 458	
Discount notes – related parties	9 979	19 977
Notes at par value	289 800	291 000
Gouvernement du Québec Financing Fund, 3.64% to 4.08%	291 000	
	307 237	310 977

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 February 1, 2006, under Order-in-Council 56-2006, the Gouvernement du Québec temporarily authorized an increase in the Corporation's authorized borrowings of \$65 million, maturing on April 30, 2006.

At March 31, 2006, the Corporation held financial agreements with four financial institutions and the Financing Fund for authorized amounts totalling \$713 million (2005: \$663 million) and \$448 million (2005: \$383 million). The amounts used bear interest at the lender's base rate.

21. ACCOUNTS PAYABLE FOR ACCRUED LIABILITY**La Financière agricole du Québec**

	2006	2005
Remuneration	1 127	2 371
Operations	1 365	3 948
Contribution to payment of interest	625	1 388
Subsidy – Young farmers' financial support program	3 716	5 767
Contribution to the payment of the Canadian Agricultural Income Stabilization Program	2 293	8 867
Grain and Oilseed Producers Payments Program	39 234	
Interest on short-term borrowings	952	1 614
Other	163	467
	49 475	24 422

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

21. ACCOUNTS PAYABLE FOR ACCRUED LIABILITY**Farm Income Stabilization Insurance Fund**

	<u>2006</u>	<u>2005</u>
Contribution credits for amounts received under Canada Québec agreements on:		
the additional federal contribution to the Farm Income Stabilization Insurance Plan	752	1 073
Transition assistance	92	93
Industry transition assistance program		2 375
ESB Recovery Program – Phase 3	1 904	
Farm Income Payments Program	3 039	
Accounts payable	<u>8 103</u>	<u>1 214</u>
	<u>13 890</u>	<u>4 755</u>

Credits for contributions are remitted to farm operations when advances and final settlements are paid.

During the year, \$3 215 M was allocated to cattle and slaughter veal producers under the ESB Recovery Program as a premium discount for the 2005 program year.

22. DEFERRED FEDERAL ASSISTANCE**La Financière agricole du Québec**

	<u>2006</u>	<u>2005</u>
Contribution to advances to the Canadian Agricultural Income Stabilization Program under section 3.10.1 of the guidelines		16 204
Contribution to Canadian Farm Income Stabilization Program –2005 participation year	<u>21 988</u>	
	<u>21 988</u>	<u>16 204</u>

Crop Insurance Fund

On July 22, 2004, the Government of Canada remitted to the Crop Insurance Fund its share in the Tripartite Gross Crop Income Insurance Plan Fund in the amount of \$7 884 M under an operational document related to the Canada-Québec agreement on production insurance. The agreement states that Québec pledges to use these funds to cover the additional risks linked to development of new grain and oilseed crops.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

23. OWING TO THE FUND

	2006	2005
Farm Income Stabilization Insurance Fund:		
Interest-free, no repayment terms	4 560	19 831
Crop Insurance Fund:		
Interest-free, no repayment terms	8 493	8 249
Bearing interest at rate of 3.86%, maturing April 28, 2006	7 901	5 400
	16 394	13 649
Farm Income Stabilization Account Fund:		
Bearing interest at one-year guaranteed investment certificate rates, no repayment terms	2 948	4 820
	<u>23 902</u>	<u>38 300</u>

24. GOUVERNEMENT DU QUÉBEC ADVANCE

	2006	2005
Interest-free, no repayment terms	4 194	4 194
Agreed to for constitution of subsidiary, bearing interest at the lesser of 50% of the net annual profit made by the subsidiary or the proportion of the net annual profit made by the subsidiary equivalent to the ratio of the advance over the subsidiary's total assets, maturing the date the subsidiary is dissolved, no later than March 31, 2008	12 000	12 000
	<u>16 194</u>	<u>16 194</u>

25. PROVISION FOR SICK LEAVE

	2006	2005
Opening balance	13 513	12 956
Charge for the year	1 410	1 403
Benefits paid during the year	(948)	(846)
Closing balance	<u>13 975</u>	<u>13 513</u>

26. 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 \$619 256 M (2005: \$487 382 M) and contributions of \$574 194 M (2005: \$553 572 M) were reduced respectively by \$182 934 M (2005: \$170 866 M) following payments under the PCSRA.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

27. 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.

	2006	2005
Grain, grain-corn and soybean producers	218 144	174 017
Apples	7 530	4 778
Potato producers		9 004
	<u>225 674</u>	<u>187 799</u>

28. INTEREST AND INVESTMENT INCOME

Under section 5, paragraph (c) of the Crop Insurance Program, as Fonds trustee, La Financière agricole determined interest and investment income of \$2 573 M.

29. COMMITMENTS**La Financière agricole du Québec**

La Financière agricole commitments under the Young farmers' financial support program, as capital subsidies posted to fiscal years ending March 31, 2007, 2008 and 2009, total \$6 509 M (2005: \$6 886 M).

Commitments under the Centre de recherche sur les grains inc. Infrastructure Contribution Program are \$1 120 M for each of the three next fiscal years. The amount granted for this year is \$1 million.

Commitments related to the Centre d'études sur les coûts de production en agriculture for fiscal 2006-2007 total \$1 500 M (2005: \$1 100 M). Additional undefined commitments are also expected for fiscal 2007-2008.

Commitments under the Supplemental maple stocks stabilization program as financial assistance for the marketing years 2005 to 2009 total a maximum of \$25 millions. At March 31, 2006, no request had been transmitted to the Corporation.

30. PENSION PLANS

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

La Financière agricole contributions charged to the year-end statement amount to \$1 830 M (2005: \$1 551 M). The liability of La Financière agricole towards these Government plans is restricted to its contributions as an employer.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

31. RELATED PARTY TRANSACTIONS

The main related party transactions are as follows:

	2006	2005
Rent and new layout expenses - Société immobilière du Québec	4 330	4 947
Supplies and communication – Government Services Fund	1 696	1 658
Contribution to financing organizations – Centre d'études sur les coûts de production en agriculture	1 100	1 100

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

32. 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.
- Common shares in private-capital firms are presented at acquisition cost unless a concrete, quantifiable even with a significant impact on the firm's value justifies an increase or decrease in value. However, if certain instruments remain at acquisition cost for a period exceeding 36 months due to the absence of events, they will be evaluated in greater detail.
- The fair value of debentures is obtained by capitalizing cash flows at the market interest rate at year-end for corresponding terms. However, this calculation does not take into account future levies envisaged in certain debenture agreements given the lack of accurate information for capitalizing these cash flows.

The fair values of the receivable and Gouvernement du Québec advance cannot reasonably be estimated given the absence of a market.

	2006		2005	
	Book value	Fair value	Book value	Fair value
Loans	9 269	8 851	11 993	11 488
Common shares	1 500	1 500	539	539
Debentures	3 947	3 803	3 897	3 763
Gouvernement du Québec receivable	4 311	4 311	5 426	5 426
Gouvernement du Québec advance	16 194	16 194	16 194	16 194

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

32. FINANCIAL INSTRUMENTS (cont'd)**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 three sectors:

	2006	2005
Food processing	77.4%	71.6%
Food distribution	12.6%	15.1%
Agricultural production	10.0%	13.3%

Interest rate risk

The Corporation is exposed to an interest rate risk linked to market fluctuations, which may impact cash flows generated by an increase in the contribution to interest payments.

33 CONTINUITY BY FARM INCOME STABILIZATION INSURANCE FUND INSURABLE PRODUCT

<u>Insurable product</u>	Balance surplus (deficit) as at March 31, 2005	Contributions	Allowances	Interest	Balance surplus (deficit) as at March 31, 2006
Feeder calves	(49 027)	114 072	121 988	(2 372)	(59 315)
Slaughter cattle and steers	(24 485)	10 561	6 785	(787)	(21 496)
Veal calves	(11 811)	18 631	28 372	(552)	(22 104)
Grain-fed calves	2 910	5 426	7 654	(41)	641
Piglets	(6 521)	21 330	8 091	280	6 998
Hogs	(38 518)	21 294	(33 081)	(1 114)	14 743
Lambs	(342)	19 100	20 623	(49)	(1 914)
Potatoes	(3 960)	(4 366)	1 477	(267)	(10 070)
Grain, grain-corn and soybeans	(182 941)	181 804	265 654	(8 369)	(275 160)
Apples	704	3 408	8 759	(60)	(4 707)
	<u>(313 991)</u>	<u>391 260</u>	<u>436 322</u>	<u>(13 331)</u>	<u>(372 384)</u>

<u>Insurable product</u>	<u>Current insurance year</u>	<u>Period covered by insurance year</u>
Feeder calves	2005	January 1, 2005 to December 31, 2005
Slaughter cattle and steers	2005	January 1, 2005 to December 31, 2005
Veal calves	2005	January 1, 2005 to December 31, 2005
Grain-fed calves	2005	January 1, 2005 to December 31, 2005
Piglets	2005	January 1, 2005 to December 31, 2005
Hogs	2005	January 1, 2005 to December 31, 2005
Lambs	2005	January 1, 2005 to December 31, 2005
Potatoes	2004	August 1, 2004 to July 31, 2005
Grain	2004	August 1, 2004 to July 31, 2005
Grain-corn	2004	October 1, 2004 to September 30, 2005
Soybeans	2004	September 1, 2004 to August 31, 2005
Canola	2004	August 15, 2004 to August 14, 2005
Apples	2004	August 15, 2004 to August 14, 2005

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006
(in thousands of dollars)

34. 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 drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

La Financière agricole du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it, and with various Canada-Québec agreements. At least every five years, it must carry out an actuarial analysis of its operations and collate any information useful for setting contribution rates for the insurance or farm income protection program.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the budgetary monitoring and audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the financial statements of La Financière agricole du Québec and the funds it administers in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the budgetary monitoring and audit committee to discuss any matter related to the audit.

On behalf of La Financière agricole du Québec and the funds it administers,
Jacques Brind'Amour, President and Chief Executive Officer
Jean-Marc Lacasse, Vice-President, Corporate Affairs

Lévis, May 25, 2006

LA FINANCIÈRE AGRICOLE DU QUÉBEC**BUDGETARY MONITORING AND AUDITING COMMITTEE REPORT**

The Budgetary Monitoring and Auditing Committee is composed exclusively of fully independent outside administrators. It answers directly to the board of directors.

Twice a year, the Committee meets with the Auditor-General of Québec, who has free, direct access to it.

Committee members examined the financial statements prepared by the Corporation for the fiscal year ending March 31, 2006 and discussed them with upper management.

The Committee also discussed the new auditing requirements and standards in effect this fiscal year with the Auditor-General and studied the latter's comments.

The Auditor-General's report indicates revenues of \$3.4 M reported under La Financière agricole results should have been included in Crop Insurance Fund results. This opinion is based on section 70 of the Crop Insurance Act.

The Corporation deems that section 70 of the Crop Insurance Act no longer applies to the Crop Insurance Fund since the combined effect of the coming into force of the Act respecting La Financière agricole du Québec, on April 17, 2001, and the Crop Insurance Program, on February 14, 2002. The new legislation allows the Corporation to adopt its own programs and to create and administer trust estates. This new legislative framework is supported by the Agreement governing the trust funds administered by La Financière agricole du Québec signed by the Minister of Agriculture, Fisheries and Food, the Union des producteurs agricoles and La Financière agricole.

In this context, and as permitted by section 5, paragraph (c) of the Crop Insurance Program, which states that the Crop Insurance Fund includes "revenues from the investment of the sums comprising the fund as determined by La Financière agricole", the Corporation, through its board of directors, decided to use some of the investment income generated by the Crop Insurance Fund, i.e. \$3.4 M, to implement specific programs.

As a result, in order to meet the special, relevant needs of two agricultural sectors, La Financière agricole adopted two programs designed to provide financial assistance to flue-cured tobacco producers and grain producers. Agreements were signed by the trust constituents and the representatives of the productions in question regarding the appropriate means of intervention and the related financial provisions.

The Budgetary Monitoring and Auditing Committee feels that La Financière agricole acted effectively in the interest of its clients and that it reported the investment income in keeping with its incorporating legislation and programs.

Given the audits and examinations carried out, the Committee recommended that the board of directors adopt the audited financial statements.

Rénald Boucher
Chair, Budgetary Monitoring and Auditing Committee

Lévis, May 25, 2006

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, 2006 and consolidated results and cash flow statements of La Financière agricole du Québec, the results and deficit statement of the Farm Income Stabilization Insurance Fund, the results and surplus statement of the Crop Insurance Fund, and changes in the balance of the Farm Income Stabilization Account for the year then ended. These financial statements are the responsibility of management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In the fiscal year ended March 31, 2006, the Corporation reported part of the interest income on Crop Insurance Fund investments in the amount of \$3 411 663 under Financière agricole du Québec results. Under section 70 of the Crop Insurance Act, this interest should have been included under Crop Insurance Fund results since it constitutes a trust estate that is separate from La Financière agricole du Québec. Had the interest income been reported entirely under the Crop Insurance Fund, the surplus at March 31, 2006 and the Crop Insurance Fund's surplus of revenues over expenses for the fiscal year then ended would have been \$3 411 663 higher and La Financière agricole du Québec's that much lower.

In my opinion, with the exception of the effects of inadequate reporting of part of the interest income as mentioned in the preceding paragraph, 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, 2006 and the results of their operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 25, 2006

LOTO-QUÉBEC
(R.S.Q., c. S-13.1)

CONSOLIDATED STATEMENT OF INCOME
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
REVENUE	4 016 030	3 937 464
COST OF SALES (Note 3)	1 483 521	1 461 589
GROSS PROFIT	2 532 509	2 475 875
OPERATING EXPENSES		
Operating expenditures	668 484	659 044
Depreciation of tangible assets	84 754	80 556
Depreciation of intangible assets	9 920	5 521
Amortization of deferred charges	11 473	1 028
Interest – Net (Note 4)	774 631	755 882
INCOME BEFORE THE FOLLOWING ITEMS	1 757 878	1 719 993
Special payments (Note 5)	32 459	29 079
Goods and Services Tax	51 964	50 234
Québec Sales Tax	59 512	57 547
	143 935	136 860
NET INCOME	1 613 943	1 583 133
SEGMENTED INFORMATION (Note 22)		

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
BALANCE AT BEGINNING OF YEAR	134 852	134 547
Net income	1 613 943	1 583 133
	1 748 795	1 717 680
Dividends	(1 537 000)	(1 511 000)
Fonds d'aide à l'action communautaire autonome (Note 6)	(13 324)	(13 185)
Fonds d'aide à l'action humanitaire internationale (Note 6)	(2 665)	(2 637)
Contributions to the Québec Government (Note 7)	(61 030)	(56 006)
	(1 614 019)	(1 582 828)
BALANCE AT END OF YEAR	134 776	134 852

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

LOTO-QUÉBEC

CONSOLIDATED BALANCE SHEET
as at March 31, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Current		
Cash on hand – Casinos	48 764	47 139
Cash on hand		26 671
Accounts receivable (Note 8)	72 470	44 603
Inventory (Note 9)	15 952	16 800
Prepaid expenses	26 320	19 012
Land destined for sale	2 077	2 077
	<u>165 583</u>	<u>156 302</u>
Investments (Note 10)	128 868	39 761
Tangible assets (Note 11)	640 811	679 526
Intangible assets (Note 12)	69 858	66 720
	<u>1 005 120</u>	<u>942 309</u>
LIABILITIES		
Current		
Bank overdraft	15 563	
Bank loans (Note 13)	586 578	499 365
Prizes payable	70 294	53 360
Accounts payable and accrued liabilities (Note 14)	166 846	224 693
Provisions related to prizes (Note 15)	11 759	10 843
Deferred income	19 134	19 026
	<u>870 174</u>	<u>807 287</u>
SHAREHOLDER'S EQUITY		
Capital-stock authorized, issued and fully paid:		
1 700 shares with a par value		
of \$100 each	170	170
Retained earnings	134 776	134 852
	<u>134 946</u>	<u>135 022</u>
	<u>1 005 120</u>	<u>942 309</u>

COMMITMENTS (Note 16)

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

On behalf of the Board of Directors,
Alain Cousineau, Chairman of the Board
Robert Crevier, Member of the Board

LOTO-QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income	1 613 943	1 583 133
Items not affecting cash flows:		
Depreciation of tangible assets	84 754	80 556
Depreciation of intangible assets	9 920	5 521
Amortization of deferred charges		1 028
Net contribution to the Manoir Richelieu LP	7 951	5 416
Changes in non-cash operating items (Note 18)	<u>(11 026)</u>	<u>21 613</u>
Operating activity cash flows	<u>1 705 542</u>	<u>1 697 267</u>
FINANCING ACTIVITIES		
Dividends paid	(1 613 000)	(1 465 000)
Bank loans	87 213	(103 422)
Contributions to the Québec Government	(61 030)	(56 006)
Fonds d'aide à l'action communautaire autonome	(13 324)	(13 185)
Fonds d'aide à l'action humanitaire internationale	<u>(2 665)</u>	<u>(2 637)</u>
Financing activity cash flows	<u>(1 602 806)</u>	<u>(1 640 250)</u>
INVESTMENT ACTIVITIES		
Acquisition of tangible assets (Note 18)	(42 855)	(27 231)
Acquisition of intangible assets (Note 18)	(9 999)	(15 473)
Acquisition of investments	(90 491)	(3 005)
Distribution to the Manoir Richelieu LP		(4 803)
Distribution of the Manoir Richelieu LP		<u>718</u>
Investment activity cash flows	<u>(143 345)</u>	<u>(49 794)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(40 609)	7 223
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	<u>73 810</u>	<u>66 587</u>
CASH AND CASH EQUIVALENTS		
AT END OF YEAR (Note 18)	<u><u>33 201</u></u>	<u><u>73 810</u></u>

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

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

(in thousands of dollars)

1. AUTHORITY AND OBJECTIVES

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the Income Tax Act (R.S.C. (1985), Ch. 1 (5th supplement)) and the Taxation Act (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

2. ACCOUNTING POLICIES

Management prepares the corporation's consolidated financial statements in accordance with Canadian generally accepted accounting principles, which requires the use of certain estimates and hypotheses. These have an effect with respect to the entry of assets and liabilities, on the presentation of contingent assets and liabilities on the date of the consolidated financial statements, as well as regarding the entry of revenues and expenditures during the period covered by the financial statements. Actual results may differ from management's best projections.

Consolidation

The consolidated financial statements include the accounts of Loto-Québec and its wholly owned subsidiaries:

- Lotim Inc. *
- La Société des casinos du Québec Inc.
- Casiloc Inc.
- La Société des loteries vidéo du Québec Inc.
- Resto-Casino Inc.
- Ingenio, filiale de Loto-Québec Inc.
- La Société des bingos du Québec Inc.
- World Gaming Consultants Inc.
- 9059-3849 Québec Inc.
- Casino Mundial Inc.
- Casino Capital 2006 Inc.
- Nter Technologies LP
- Nter Technologies Inc.

The investments in the Manoir Richelieu Limited Partnership, the 9064-1812 Québec Inc. General Partnership and Moliflor Loisirs Développement are entered at their consolidated value.

* Based on the audited financial statements as at December 31, 2005, and adjusted based on the unaudited interim results as at March 31, 2006.

Revenues*Lotteries*

Revenues generated from the sale of lottery tickets and bingo cards are recorded on the date of the draw, with the exception of earnings from instant lottery ticket sales, which are entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

Casinos and Video Lotteries

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Revenues (cont'd)***Multimedia*

Revenues primarily represent royalties based on a lump sum or a certain percentage of the total of the multimedia lottery retail price. These royalties are recorded when the tickets or master CD-ROMs are delivered to the lottery corporations.

Other revenues are recorded when all major ownership-related risks and benefits have been transferred to the buyer, or when the services in question have been rendered to the customer. The retail price must be determined or determinable and receipt of payment reasonably assured.

Restaurants and Lodging

Revenues are recorded once services have been rendered, when the retail price is determined or determinable, and when receipt of payment is reasonably assured.

Cost of Sales*Lotteries and Bingo*

Prizes awarded from ticket sales for bingo are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

Casinos

These amounts represent the promotional cash rebates issued to casino patrons.

Consumption Taxes

The taxes paid on products and services acquired and attributable to activities related to gaming cannot be recovered by the Corporation. These are entered as an element of the cost to which they relate.

Moreover, rather than collecting the Québec Sales Tax and Goods and Services Tax on earnings generated by gaming related activities, the Corporation pays the taxes normally payable by the consumer and absorbs the costs. These are distinctly presented in the consolidated statement of income.

The net taxes attributable to gaming related activities represent approximately 30% of the bulk of taxable gaming related expenditures, while those attributable to activities not related to gaming are calculated in the same way as for other entities subject to consumption taxes.

Pension Plans

Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

LOTO-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Inventory***Lotteries and Video Lotteries*

Inventories made up of modules for game terminals and video lottery terminals are valued at the lower of average cost and replacement value. The cost is determined using the average cost method.

Restaurants

Inventories are valued at the lower of cost and net realizable value or replacement value. Cost is estimated as follows:

Food and beverages:	average cost
Hotel and kitchen equipment:	base stock

Tangible Assets

Tangible assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the straight-line method and following rates:

Buildings	2% to 14.29%
Parking lot landscaping	2.5% to 14.29%
Rented parking lot landscaping	2.86% and 6 2/3%
Interior design	2.5% to 14.29%
Exterior landscaping	2.5% to 14.29%
Leasehold improvements	9.68 % to 20%
Office furniture	10% and 20%
Automotive equipment	30%
Equipment	10% to 50%

Unused equipment is not amortized.

The Corporation continuously evaluates the book value of its tangible assets. In order to determine if the value has decreased, management evaluates the estimated undiscounted cash flows which will be generated by these tangible assets. Any permanent drop in the book values of tangible assets is charged to the results for the period during which the drop in value occurred.

Intangible Assets

Intangible assets consist of software and computer development. They are presented at their cost and amortized based on their probable useful life using the straight-line method at the rate of 10% to 33.3%. They are subject to a depreciation test when changes in the situation indicate that their book value would not be recoverable. Any excess of the book value over the real value is charged to the results of the period during which the depreciation was determined.

Computer projects in development will be amortized upon completion of the development phase and once the projects are implemented.

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Currency Conversion**

Monetary asset and liability elements denominated in currencies are converted at the exchange rate in effect on the date of the review. All other asset and liability elements are converted based on past history. For their part, revenues and expenditures are converted at the exchange rate in effect on the date of the operation. Exchange gains or losses are included in the results of the fiscal year.

Cash and Cash Equivalents

The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash in hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

3. COST OF SALES

	2006	2005
Lotteries		
Prizes awarded	966 350	964 397
Commissions to retailers	126 919	126 745
Printing of tickets	31 640	32 486
	<u>1 124 909</u>	<u>1 123 628</u>
Casinos, Restaurants, Lodging		
Promotional allowances	23 154	19 137
Restaurants	26 992	26 227
	<u>50 146</u>	<u>45 364</u>
Video Lotteries		
Commissions to retailers	285 738	272 115
Printing of coupons	1 312	1 050
	<u>287 050</u>	<u>273 165</u>
Bingo		
Prizes awarded	18 294	16 574
Commissions to operators	2 297	2 082
Printing of cards	825	776
	<u>21 416</u>	<u>19 432</u>
	<u>1 483 521</u>	<u>1 461 589</u>

4. INTEREST – NET

	2006	2005
Interest on bank loans	12 034	10 267
Interest on term deposits	(561)	(534)
	<u>11 473</u>	<u>9 733</u>

LOTO-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

5. SPECIAL PAYMENTS

	2006	2005
Compensation to the Government of Canada	14 819	14 457
Net contribution to the Manoir Richelieu LP	7 951	5 416
Special commissions to non-profit organizations	1 029	1 120
Compensations to participating non-profit organizations	7 861	7 314
Compensations to non-participating non-profit organizations	799	772
	<u>32 459</u>	<u>29 079</u>

Compensation to the Government of Canada

Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of \$24 million in 1979 dollars every year. For the year ended March 31, 2006, this amounted to \$61.9 million (2005: \$60.4 million).

The Québec Government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

Net Contribution to the Manoir Richelieu Limited Partnership

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

Special Commissions to Non-Profit Organizations (NPOs)

Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the *Lotomatique* subscription system.

Compensations to Non-Profit Organizations (NPOs)*Participating NPOs*

The Société des bingos du Québec Inc. allots charitable or religious organizations that hold a bingo license an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners, or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

Non-Participating NPOs

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the *Le Grand Tour* game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

**6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME AND
FONDS D'AIDE À L'ACTION HUMANITAIRE INTERNATIONALE**

Under its act of incorporation, each year the Corporation pays into the Fonds d'aide à l'action communautaire autonome and the Fonds d'aide à l'action humanitaire internationale sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the State-run casinos and the businesses which are incidental to them.

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

7. CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT

	2006	2005
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	47 000
Ministère de la Sécurité publique	3 530	3 506
	<u>61 030</u>	<u>56 006</u>

8. ACCOUNTS RECEIVABLE

	2006	2005
Wholesalers	37 271	18 735
Retailers	19 469	15 081
Miscellaneous	15 730	10 787
	<u>72 470</u>	<u>44 603</u>

9. INVENTORY

	2006	2005
Lotteries		
Modules – Game terminals	2 707	3 357
Video lotteries		
Modules – Video lottery terminals	3 864	4 163
Restaurants		
Food and beverages	6 180	6 079
Kitchen and hotel equipment	3 201	3 201
	<u>9 381</u>	<u>9 280</u>
	<u>15 952</u>	<u>16 800</u>

10. INVESTMENTS

	2006	2005
Moliflor Loisirs Développement and its wholly owned subsidiaries		
Shares –35% interest	4 803	
Loans, 8%, capital and interest cashable as at May 31, 2016	82 169	
	<u>86 972</u>	
Manoir Richelieu Limited Partnership and 9064-1812 Québec Inc.		
General Partnership, interest equivalent to 50% of the operation of the Manoir Richelieu and Casino de Charlevoix	41 896	39 761
	<u>128 868</u>	<u>39 761</u>

On March 30, 2006, Loto-Québec purchased an interest in the form of shares in Moliflor Loisirs Développement, a French concern that controls a group which operates a number of casinos in France. Moreover, on that same date, the Corporation took over the loans of this company's subsidiaries totalling \$82 million.

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

10. INVESTMENTS (cont'd)

The consolidation value includes an amount equivalent to the difference between the cost of the investment in shares and the interest acquired by the Corporation in the net holdings of the satellite company on the date of acquisition. The distribution of the purchase price will be determined subsequent to an assessment of Moliflor Loisirs Développement's assets during the course of the next fiscal year. The Corporation enters its share of the results as of March 30, 2006, the acquisition date.

11. TANGIBLE ASSETS

	2006		2005
	Cost	Depreciation accumulated	Net
Land	30 259		30 028
Buildings	292 263	89 561	210 210
Parking lot landscaping	128 378	60 416	74 358
Rented parking lot landscaping	5 271	2 772	2 775
Interior design	181 997	94 130	93 881
Exterior landscaping	30 493	21 125	10 943
Leasehold improvements	36 043	26 035	11 534
Office furniture	29 317	19 749	10 530
Automotive equipment	1 041	756	237
Equipment	540 099	339 412	219 900
Art works	4 947		4 594
Unused tangible assets	14 659		10 536
	<u>1 294 767</u>	<u>653 956</u>	<u>679 526</u>

Unused tangible assets consists of unused equipment in the amount of \$13.4 million (2005: \$10.5 million), as well as buildings undergoing renovation valued at \$1.3 million.

Tangible assets put out of service at of \$5.5 million (2005: \$7.1 million) and fully amortized as at March 31, 2006, are included in equipment.

12. INTANGIBLE ASSETS

	2006		2005
	Cost	Depreciation accumulated	Net
Software and computer development	79 473	29 049	17 575
Computer projects in development	19 434		49 145
	<u>98 907</u>	<u>29 049</u>	<u>66 720</u>

13. BANK LOANS

Demand bank loans are authorized by the Québec Government for a maximum amount of \$700 million and bearing interest at market rates of 3.74% to 4.22% (2005: 2.56% to 3.24%).

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Suppliers and accrued liabilities	138 036	126 209
Dividends	6 000	82 000
Manoir Richelieu LP	11 866	5 299
Québec Sales Tax	5 893	6 085
Goods and Services Tax	5 051	5 100
	<u>166 846</u>	<u>224 693</u>

15. PROVISIONS RELATED TO PRIZES

	2006	2005
Provision for unclaimed prizes	11 069	10 436
Provision for prize structure variances	690	407
	<u>11 759</u>	<u>10 843</u>

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for the payment of bonuses and retailer prizes.

The provision for prize structure variances in bingo is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

16. COMMITMENTS**Leases**

Under an agreement expiring June 2013, the Corporation is committed to paying a minimum of \$90.2 million (2005: \$32.6 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of \$45.1 million (2005: \$16.3 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until May 2035, to renting space for administrative offices. In certain cases, these leases have a two-to five-year renewal option.

The minimum rental payments (in thousands of dollars) are as follows:

2007	26 390
2008	24 222
2009	21 934
2010	20 945
2011	19 388
2012 and subsequent	<u>25 537</u>
	<u>138 416</u>

Contributions to the Québec Government*Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)*

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay an annual sum of \$5.5 million into a designated fund each calendar year for five years, until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

LOTO-QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

16. COMMITMENTS (cont'd)**Contributions to the Québec Government (cont'd)***Ministère de la Santé et des Services sociaux*

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of \$22 million annually (2005: \$17 million) into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Moreover, the Corporation has also given its commitment to the Ministère to pay \$30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of \$3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately \$0.5 million annually, into a designated fund over a period of five years ending September 30, 2007 to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

17. FINANCIAL INSTRUMENTS**Fair Value**

The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

The fair value of investments totalling \$128.9 million cannot be evaluated given the market absence for this type of financial instrument.

Credit Risk

Management does not believe that the Corporation is exposed to any major credit risk. Loto-Québec's casinos' cash on hand includes the gaming houses' cash inventory. Finally, accounts receivable are primarily from operations concluded with numerous wholesalers and retailers.

18. CONSOLIDATED CASH FLOWS

	2006	2005
Cash and cash equivalents at the end		
Cash on hand – Casinos	48 764	47 139
(Bank overdraft) cash on hand	(15 563)	26 671
	<u>33 201</u>	<u>73 810</u>

LOTO-QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

18. CONSOLIDATED CASH FLOWS (cont'd)

	2006	2005
Change in non-cash operating items		
Accounts receivable	(27 867)	26 482
Inventory	848	(2 488)
Prepaid expenses	(6 265)	4 806
Prizes payable	16 934	(15 953)
Accounts payable and accrued liabilities	4 300	7 132
Provisions related to prizes	916	1 036
Deferred income	108	598
	<u>(11 026)</u>	<u>21 613</u>
Acquisition of tangible assets	(42 286)	(27 545)
Less: prepaid expenses transferred to tangible assets	(569)	314
	<u>(42 855)</u>	<u>(27 231)</u>
Acquisition of intangible assets	(9 525)	(15 473)
Less: prepaid expenses transferred to intangible assets	(474)	
	<u>(9 999)</u>	<u>(15 473)</u>
Supplementary information		
Interest paid	12 535	13 604

19. PENSION PLANS

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the Société des bingos du Québec Inc. and Ingenio, filiale de Loto-Québec Inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF), and the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total \$3.2 million (2005: \$2.4 million). The employer's obligations toward these government plans are limited to its contributions as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total \$9.6 million (2005: \$9.2 million).

20. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already outlined and recorded at exchange amount, Loto-Québec is related to all Québec Government departments and special funds, as well as to all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or significant mutual influence on the part of the Government. With the exception of the aforementioned operations, the Corporation has not concluded any business transactions with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

21. COMPARATIVE FIGURES

Certain figures posted for the year 2005 have been reclassified in order to conform to the presentation adopted in 2006.

LOTO-QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

22. SEGMENTED INFORMATION

Activity Sectors	2006						Consolidated Figures
	Lotteries	Casinos Restaurants Lodging	Video Lotteries	Bingo	Multi- media	Inter- Company Elimination	
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
	<u>1 860 630</u>	<u>859 344</u>	<u>1 298 805</u>	<u>39 857</u>	<u>1 354</u>	<u>(43 960)</u>	<u>4 016 030</u>
Cost of Sales							
Games	1 125 059	23 154	287 050	21 416		(150)	1 456 529
Restaurants		26 992					26 992
	<u>1 125 059</u>	<u>50 146</u>	<u>287 050</u>	<u>21 416</u>		<u>(150)</u>	<u>1 483 521</u>
Gross Profit	<u>735 571</u>	<u>809 198</u>	<u>1 011 755</u>	<u>18 441</u>	<u>1 354</u>	<u>(43 810)</u>	<u>2 532 509</u>
Operating expenses							
Operating expenditures	154 397	482 771	63 412	5 622	6 092	(43 810)	668 484
Depreciation of tangible assets	10 609	44 670	29 251	173	51		84 754
Depreciation of intangible assets	5 244	2 714	1 596	363	3		9 920
Interest – Net	3 711	2 452	5 336	(9)	(17)		11 473
	<u>173 961</u>	<u>532 607</u>	<u>99 595</u>	<u>6 149</u>	<u>6 129</u>	<u>(43 810)</u>	<u>774 631</u>
Income (Loss) before the following items	<u>561 610</u>	<u>276 591</u>	<u>912 160</u>	<u>12 292</u>	<u>(4 775)</u>		<u>1 757 878</u>
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
	<u>54 495</u>	<u>28 066</u>	<u>51 784</u>	<u>9 590</u>			<u>143 935</u>
Net Income (Net Loss)	<u>507 115</u>	<u>248 525</u>	<u>860 376</u>	<u>2 702</u>	<u>(4 775)</u>		<u>1 613 943</u>

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

LOTO-QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

22. SEGMENTED INFORMATION (cont'd)

Activity Sectors	2005						Consolidated Figures
	Lotteries	Casinos Restau- rants Lodging	Video Lotteries	Bingo	Multi- media	Inter- Company Elimin- ation	
Revenues							
Games	1 857 225	751 913	1 236 884	36 597	1 070	(104)	3 883 585
Restaurants		82 766				(42 294)	40 472
Lodging		13 407					13 407
	<u>1 857 225</u>	<u>848 086</u>	<u>1 236 884</u>	<u>36 597</u>	<u>1 070</u>	<u>(42 398)</u>	<u>3 937 464</u>
Cost of Sales							
Games	1 123 732	19 137	273 165	19 432		(104)	1 435 362
Restaurants		26 227					26 227
	<u>1 123 732</u>	<u>45 364</u>	<u>273 165</u>	<u>19 432</u>	<u></u>	<u>(104)</u>	<u>1 461 589</u>
Gross Profit	<u>733 493</u>	<u>802 722</u>	<u>963 719</u>	<u>17 165</u>	<u>1 070</u>	<u>(42 294)</u>	<u>2 475 875</u>
Operating Expenses							
Operating expenditures	146 298	474 052	69 368	5 512	6 108	(42 294)	659 044
Depreciation of tangible assets	10 695	40 320	29 322	155	64		80 556
Depreciation of intangible assets	1 298	2 242	1 616	362	3		5 521
Amortization of deferred charges		1 028					1 028
Interest – net	<u>3 125</u>	<u>2 342</u>	<u>4 283</u>	<u>(7)</u>	<u>(10)</u>	<u></u>	<u>9 733</u>
	<u>161 416</u>	<u>519 984</u>	<u>104 589</u>	<u>6 022</u>	<u>6 165</u>	<u>(42 294)</u>	<u>755 882</u>
Income (Loss) before the following items	<u>572 077</u>	<u>282 738</u>	<u>859 130</u>	<u>11 143</u>	<u>(5 095)</u>	<u></u>	<u>1 719 993</u>
Special payments	15 577	5 416		8 086			29 079
Goods and Services Tax	16 609	9 930	23 275	420			50 234
Québec Sales Tax	<u>19 001</u>	<u>11 383</u>	<u>26 682</u>	<u>481</u>	<u></u>	<u></u>	<u>57 547</u>
	<u>51 187</u>	<u>26 729</u>	<u>49 957</u>	<u>8 987</u>	<u></u>	<u></u>	<u>136 860</u>
Net Income (Net Loss)	<u>520 890</u>	<u>256 009</u>	<u>809 173</u>	<u>2 156</u>	<u>(5 095)</u>	<u></u>	<u>1 583 133</u>

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

LOTO-QUÉBEC**MANAGEMENT REPORT**

Loto-Québec's consolidated financial statements have been reviewed by management personnel, who are responsible for their preparation and presentation, including estimates and important judgements. This responsibility also entails the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information contained within the rest of the Annual Report corresponds to the information provided in the financial statements.

In order to fulfill its responsibilities, management maintains a system of internal accounting controls designed to provide reasonable assurance that corporate assets are protected and that operations are correctly entered in a timely manner, that they are duly approved, and that they allow for the preparation of reliable consolidated financial statements. For its part, the Corporation's Internal Audit group conducts periodic audits in order to assure that adequate and sustained internal controls are uniformly applied.

Loto-Québec recognizes that it is responsible for managing its affairs in conformance with the laws and regulations that govern the organization.

The Board of Directors monitors the way in which management carries out its responsibilities with respect to the preparation and presentation of financial information. The Board is also responsible for approving the consolidated financial statements. It relies upon the assistance of the Audit Committee, whose members are not part of the management team. This Committee meets with management and the Auditor General of Québec, examines the consolidated financial statements and recommends their approval by the Board of Directors.

The Auditor General of Québec has audited the Corporation's consolidated financial statements, in accordance with Canadian generally accepted auditing standards, and his report outlines the nature and scope of this audit along with his opinion. The Auditor General may, without restriction, meet with the Audit Committee to discuss any element that concerns his audit.

Alain Cousineau
Chairman, President and
Chief Executive Officer

Gilles Dufour
Senior Vice-President,
Financial Management

Montréal, May 25, 2006

LOTO-QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2006 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Loto-Québec as at March 31, 2006, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, May 25, 2006

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL
(R.S.Q., c. M-44)

INCOME AND CHANGES IN FUND BALANCES
for the year ended March 31, 2006

	General Fund	Commercial Activities Fund
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$7 555 000	
Specific projects	385 486	
Federal subsidies for specific projects (Note 4)	420 000	
Donations of works of art	1 189 565	
Donations – Fundraising campaign (Note 5)		
Other donations (Note 6)	1 064 141	
Sponsorship	22 784	
Investment income (Note 7)	100 569	
Sales		\$22 101
Space rental		192 357
Exhibitions on loan	29 348	
Royalties – food services		62 689
Admission fees	307 693	
Other revenue	273 127	654
	<u>11 347 713</u>	<u>277 801</u>
EXPENSES		
Salaries and other remuneration	4 360 305	98 391
Professional, administrative and other services	1 786 739	36 973
Transportation and communications	1 630 377	3 824
Materials and supplies	614 416	22 819
Rentals	972 779	15 910
Maintenance and repairs	211 553	9 149
Interest charges and cost of borrowing	15 411	
Acquisition of works of art and archives (Note 8)		
Donations – works of art	1 189 565	
Purchases – works of art	652 852	
Amortization – fixed assets		
	<u>11 433 997</u>	<u>187 066</u>
EXCESS (INSUFFICIENT) REVENUES OVER EXPENSES	(86 284)	90 735
FUND BALANCES, BEGINNING OF YEAR	273 170	275 000
Interfund contributions (Note 10)	90 735	(90 735)
Contribution received as an endowment (Note 9)		
FUND BALANCES, END OF YEAR	<u><u>\$277 621</u></u>	<u><u>\$275 000</u></u>

The notes are an integral part of the financial statements.

Fixed Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2006	Total 2005
\$471 115	\$29 255		\$8 055 370	\$8 324 041
			385 486	11 254
			420 000	474 345
			1 189 565	1 543 394
				190 212
			1 064 141	361 584
			22 784	11 405
			100 569	67 700
			22 101	556 142
			192 357	190 992
			29 348	92 854
			62 689	57 067
			307 693	232 630
			273 781	157 000
471 115	29 255		12 125 884	12 270 620
			4 458 696	4 960 747
			1 823 712	2 001 064
			1 634 201	770 198
			637 235	883 071
			988 689	912 385
			220 702	188 082
318 719	29 255		363 385	567 037
			1 189 565	1 543 394
			652 852	284 064
152 396			152 396	153 417
471 115	29 255		12 121 433	12 263 459
			4 451	7 161
(446 623)		\$1 412 846	1 514 393	1 257 232
\$(446 623)		\$1 412 846	\$1 518 844	\$1 264 393

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

BALANCE SHEET
as at March 31, 2006

	General Fund	Commercial Activities Fund
ASSETS		
Current assets		
Cash on hand	\$1 993 940	
Short-term investments (Note 11)		
Accounts receivable	223 739	\$53 557
Accrued interest	14 237	
Interfund receivables, interest-free and no repayment terms	430 470	183 225
Gouvernement du Québec subsidies receivable	100 000	
Other subsidies receivable	10 000	
Inventory		
Prepaid expenses	21 039	
	<u>2 793 425</u>	<u>236 782</u>
Gouvernement du Québec subsidies receivable		
Long-term receivable		42 218
Portfolio investments (Note 11)	778 707	
Fixed assets (Note 12)		
	<u>\$3 572 132</u>	<u>\$279 000</u>
LIABILITIES		
Current liabilities		
Bank advances and credit line (Notes 13 and 14)		
Accounts payable and accruals	\$1 119 019	
Provision for vacation time	399 828	
Interfund receivables, interest-free and no repayment terms		
Interest payable		
Deferred revenue	33 202	\$4 000
Deferred donations (Note 5)		
Deferred investment income (Note 11)	749 936	
Deferred Gouvernement du Québec subsidies		
Specific projects	195 000	
Current portion of long-term debt (Note 15)	2 496 985	4 000
	<u>797 526</u>	
Future fringe benefits (Note 17)		
Long-term debt (Note 15)		
Deferred Gouvernement du Québec subsidies (Note 16)		
	<u>3 294 511</u>	<u>4 000</u>
FUND BALANCES		
External appropriations	250 000	275 000
Non-appropriated funds	27 621	
	<u>277 621</u>	<u>275 000</u>
	<u>\$3 572 132</u>	<u>\$279 000</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Marc DeSerres
Nathalie Pratte

Fixed Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2006	Total 2005
		\$24 712	\$2 018 652	\$1 517 908
		129 290	129 290	171 740
	\$133 499		410 795	452 216
			14 237	16 052
	138 534			
\$482 819	76 710		659 529	747 017
			10 000	28 892
				101 276
			21 039	12 385
482 819	348 743	154 002	3 263 542	3 047 486
5 202 434	403 110		5 605 544	5 671 795
			42 218	
		1 939 639	2 718 346	2 542 781
385 668			385 668	414 154
\$6 070 921	\$751 853	\$2 093 641	\$12 015 318	\$11 676 216
\$398 500			\$398 500	\$578 700
			1 119 019	658 566
			399 828	394 765
71 434		\$680 795		
87 387	\$9 525		96 912	256 072
			37 202	61 918
	272 033		272 033	122 533
			749 936	664 466
			195 000	409 304
392 926	67 185		460 111	433 854
950 247	348 743	680 795	3 728 541	3 580 178
			797 526	747 291
5 202 434	403 110		5 605 544	5 671 795
364 863			364 863	162 559
6 517 544	751 853	680 795	10 496 474	10 161 823
(446 623)		1 412 846	1 491 223	1 491 223
			27 621	23 170
(446 623)		1 412 846	1 518 844	1 514 393
\$6 070 921	\$751 853	\$2 093 641	\$12 015 318	\$11 676 216

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**CASH FLOW STATEMENT**
for the year ended March 31, 2006

	General Fund	Commercial Activities Fund
OPERATING ACTIVITIES		
Excess (insufficient) revenues over expenses	\$(86 284)	\$90 735
Items not affecting liquid assets:		
Depreciation of fixed assets		
Net gains on investments	(438)	
	(86 722)	90 735
Changes in assets and liabilities related to operations:		
Accounts receivable	15 591	(28 171)
Accrued interest	1 815	
Interfund receivables	189 192	(8 187)
Gouvernement du Québec subsidies receivable	(50 000)	
Other subsidies receivable	18 892	
Inventory		101 276
Prepaid expenses	(8 654)	
Long-term receivable		(42 218)
Accounts payable and accruals	460 453	
Provision for vacation time	5 063	
Interest payable		
Deferred revenue	(2 016)	(22 700)
Deferred donations		
Deferred investment income	85 470	
Deferred Gouvernement du Québec subsidies		
Specific projects	(214 304)	
Future fringe benefits	50 235	
Deferred Gouvernement du Québec subsidies		
	551 737	
Cash flows related to operating activities	465 015	90 735
FINANCING ACTIVITIES		
Repayment of long-term debt		
Long term debt		
Endowments		
Bank advances		
Cash flows related to financing activities		
INVESTMENT ACTIVITIES		
Acquisition of fixed assets		
Acquisition of investments	(52 172)	
Proceeds from the disposal of investments	50 000	
Cash flows related to investment activities	(2 172)	
CHANGE IN CASH AND CASH EQUIVALENTS	462 843	90 735
Interfund contributions (Note 10)	90 735	(90 735)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1 440 362	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$1 993 940	

Cash and cash equivalents include cash on hand.

The notes are an integral part of the financial statements.

Fixed Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2006	Total 2005
			\$4 451	\$7 161
\$152 396			152 396	153 417
		\$(27 702)	(28 140)	(15 801)
152 396		(27 702)	128 707	144 777
	\$54 001		41 421	302 371
			1 815	1 267
(55 176)	(203 500)	77 671	153 739	578 950
135 194	68 545		18 892	(28 892)
			101 276	56 757
			(8 654)	20 521
			(42 218)	
			460 453	128 366
			5 063	(7 803)
(157 799)	(1 361)		(159 160)	(17 015)
			(24 716)	18 947
	149 500		149 500	10 288
			85 470	71 956
			(214 304)	40 000
			50 235	41 095
202 304			202 304	(153 416)
124 523	67 185	77 671	821 116	1 063 392
276 919	67 185	49 969	949 823	1 208 169
(4 999 148)	(67 185)		(5 066 333)	(433 854)
5 026 339			5 026 339	250 000
(180 200)			(180 200)	42 000
(153 009)	(67 185)		(220 194)	(141 854)
(123 910)			(123 910)	(101 761)
		(950 407)	(1 002 579)	(653 546)
		847 604	897 604	664 907
(123 910)		(102 803)	(228 885)	(90 400)
		(52 834)	500 744	975 915
		77 546	1 517 908	541 993
		\$24 712	\$2 018 652	\$1 517 908

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**NOTES TO FINANCIAL STATEMENTS**
March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée d'art contemporain de Montréal was established by the National Museums Act (R.S.Q., c. M-44) to make known, promote and preserve contemporary Québec art and to ensure a place for international contemporary art through acquisitions, exhibitions and other cultural activities.

The Musée d'art contemporain de Montréal has been recognized as a charitable institution within the meaning of the Québec Taxation Act and the Canada Income Tax Act. Consequently, it is eligible for the tax exemption provided for such institutions.

2. PURPOSE OF THE FUNDS

The General Fund accounts for the Musée's current operations.

The Commercial Activities Fund shows the Musée's commercial activities, such as the sale of exhibition catalogues, restaurant and gift shop operations, the production and sale of by-products and rental of space. Under a regulation approved by the Government in September 1994, the Fund balance must not exceed \$275 000 and must be used to repay borrowings or finance the Musée's activities.

The Fixed Assets Fund shows all assets, liabilities, revenue and expenditure related to fixed assets. All amounts recorded in the Fixed Assets Fund are reserved for the acquisition of fixed assets for the Musée and the payment of related costs. The Musée may not acquire, dispose of, mortgage or rent any building without the Government's approval.

The Fundraising Campaign Fund receives donations for the enhancement of the Musée's educational activities, the acquisition of works of art and fixed assets.

The Endowment Fund for the Acquisition of Works of Art presents resources acquired through endowments. Under a regulation approved by the Government, the capital must be maintained and only investment income generated by this Fund can be used to acquire works of art for the Musée's collection.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Subsidy recording

Subsidies are recorded using the deferral method. Appropriated subsidies are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated subsidies are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

Subsidies receivable for fixed assets and their maintenance are recorded in the year the Musée obtained the financing or carried out the work entitling it to these subsidies.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 recorded as proceeds when it is used for the acquisition of works of art.

Other endowments are recorded as a direct increase in the balance of the General Fund Endowment Fund, whereas the investment income related to these contributions is recorded as deferred investment income in the General Fund and recorded as proceeds in the fiscal year in which the related charges are incurred.

Works of art

Acquisitions of works of art are charged to expenditure of the General Fund.

The value of works of art received as donations during the year is ascertained by experts and, if over \$1 000, must be certified by the Canadian Cultural Property Export Review Board of the Government of Canada. Works of art acquired through donations are recorded in the statement of revenue and expenditure of the General Fund when all attendant conditions have been fulfilled.

Investments

Short-term investments are recorded at the lower of cost 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.

Fixed assets

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis over their estimated service lives, namely:

Storerooms for works of art	10 years
Computer system	3 years
Musée furnishings	10 years
Musée equipment	5 years
Audiovisual equipment	3 years
Gift shop equipment	5 years
Restaurant equipment	5 years
Sculpture garden	10 years

Inventory

Gift shop inventory is valued at the lower of cost method value. Cost is determined by the first in, first out (FIFO) method.

Contributions in the form of services

The Ministère de la Culture et des Communications provides the Musée with art restoration services free of charge. These services are not shown in the financial statements. The Musée is unable to evaluate these amounts with reasonable assurance.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. ACCOUNTING POLICIES (cont'd)**Pension plans**

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

4. FEDERAL SUBSIDIES FOR SPECIFIC PROJECTS

	2006	2005
Canada Council	\$330 000	\$323 000
Heritage Canada	90 000	141 345
Foreign Affairs Canada		10 000
	<u>\$420 000</u>	<u>\$474 345</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 income from donations when used for the campaign's educational activities. At March 31, 2006, the Fondation had pledges totalling \$243 500 (2005: \$393 000). These pledges will be recorded when cashed in future years.

Deferred *Une Affaire d'Art* fundraising campaign donations:

	2006	2005
Opening balance	\$122 533	\$112 245
Donations cashed during the year	149 500	200 500
Amounts recorded as income from donations during the year		(190 212)
	<u>\$272 033</u>	<u>\$122 533</u>
Closing balance		

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

5. FONDATION DU MUSÉE (cont'd)

During the fiscal year, the Musée d'art contemporain de Montréal sold Musée giftshop inventories to the Fondation for \$80 000, a selling price that corresponds to their book value and that is payable in 36 equal monthly instalments. During the fiscal year, the Musée also carried out transactions with the Fondation in the normal course of its business.

At March 31, 2006, the Fondation held \$25 000 (2005: \$25 000) in liquid assets belonging to the Musée. Provision has been made, in the event that the Fondation is dissolved or its activities cease, for the assets remaining after payment of its debts to be remitted to the Musée. The Fondation's net assets totalled \$305 240 at March 31, 2006 (2005: \$275 501). At the end of the fiscal year, the net balance owing by the Fondation to the Musée was \$235 872 (2005: \$193 109).

6. OTHER DONATIONS

	2006	2005
Cash donations	\$59 390	\$172 351
Donations in the form of services	1 004 751	189 233
	<u>\$1 064 141</u>	<u>\$361 584</u>

7. INVESTMENT INCOME

	2006	2005
Income from unappropriated resources	\$100 569	\$67 700
Income from resources held in the Endowment		
Fund for the Acquisition of Works of Art	78 355	68 415
Income from resources held as endowments in		
Operating Fund	7 115	3 541
Less: Deferred amounts slated for		
the acquisition of works of art	(78 355)	(68 415)
Less: Deferred amounts slated for presentation		
of an annual symposium (Note 9)	(7 115)	(3 541)
	<u>\$100 569</u>	<u>\$67 700</u>

8. COLLECTIONS

The Musée d'art contemporain de Montréal holds 7 052 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, that is, to ensure a place for contemporary Québec art on the Canadian and international art scenes.

Among other things, the Musée maintains archival collections, comprising primarily the Fonds Borduas, the Fonds Boulerice, the Fonds Mousseau, the Fonds Yves Trudeau, Fonds Marciej Babinski and the Fonds Le Gobelet.

During fiscal 2005-2006, the Musée acquired 66 works of art and archives (2005: 507), 22 of which were purchased (2005: 33) for a total of \$652 852 (2005: \$284 064), 44 were from donations (2005: 474) for a total of \$1 189 565 (2005: \$1 543 394).

9. CONTRIBUTION RECEIVED AS AN ENDOWMENT

The balance of the General Fund includes \$250 000, which is slated by external assignment for being kept permanently. The investment income related to this amount is used for an annual symposium under external assignment.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. INTERFUND CONTRIBUTIONS

	General Fund		Commercial Activities Fund		Fundraising Campaign Fund	
	2006	2005	2006	2005	2006	2005
Objects						
Expenditures financed by the Fundraising Campaign Fund ^a		\$190 212				\$(190 212)
Positive fund balance ^b	\$90 735	89 887	\$(90 735)	\$(89 887)		
	<u>\$90 735</u>	<u>\$280 099</u>	<u>\$(90 735)</u>	<u>\$(89 887)</u>		<u>\$(190 212)</u>

a Transfer to the General Fund to cover education expenses related to the fundraising campaign.

b Transfer to the General Fund of the portion of the Commercial Activities Fund balance in excess of \$275 000 (Note 2).

11. INVESTMENTS

	2006						2005	
	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								
Treasury bills maturing in May, 2006, interest of 3.63%			<u>\$129 290</u>	<u>\$129 558</u>	<u>\$129 290</u>	<u>\$129 558</u>	<u>\$171 740</u>	<u>\$172 881</u>
Portfolio investments								
Bonds maturing between 1 and 5 years, interest of 3.48% to 7%	\$568 639	\$576 592	\$318 663	\$328 900	\$887 302	\$905 492	\$536 314	\$573 330
6 and 10 years, interest of 4.18% to 10.25%	210 068	220 225	401 378	404 685	611 446	624 910	900 029	919 909
11 years and more, interest of 4.55% to 8%			<u>200 268</u>	<u>215 869</u>	<u>200 268</u>	<u>215 869</u>	<u>173 816</u>	<u>193 355</u>
	<u>778 707</u>	<u>796 817</u>	<u>920 309</u>	<u>949 454</u>	<u>1 699 016</u>	<u>1 746 271</u>	<u>1 610 159</u>	<u>1 686 594</u>
Marketable securities			<u>1 019 330</u>	<u>1 231 841</u>	<u>1 019 330</u>	<u>1 231 841</u>	<u>932 622</u>	<u>1 065 065</u>
	<u>\$778 707</u>	<u>\$796 817</u>	<u>\$1 939 639</u>	<u>\$2 181 295</u>	<u>\$2 718 346</u>	<u>\$2 978 112</u>	<u>\$2 542 781</u>	<u>\$2 751 659</u>

The net investment income accumulated at March 31, 2006, and available for acquisitions under the Fund's regulations, totalled \$739 281 (2005: \$660 925) and are recorded as deferred investment income in the General Fund. Net cumulated investment income at March 31, 2006, to be used for an annual symposium under external assignment, totalled \$10 655 (2005: \$3 541) and was posted to investment income in the General Fund.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. FIXED ASSETS FUND – FIXED ASSETS**

	2006		2005	
	Cost	Accumulated depreciation	Net value	Net value
Storerooms for works of art	\$633 404	\$625 476	\$7 928	\$9 761
Computer system	452 849	423 641	29 208	40 234
Musée furnishings	3 746 695	3 459 040	287 655	281 621
Musée equipment	293 714	260 602	33 112	50 071
Audiovisual equipment	419 616	412 513	7 103	13 474
Gift shop equipment	37 200	37 200		
Restaurant equipment	129 010	112 151	16 859	14 647
Sculpture garden	483 281	479 478	3 803	4 346
	<u>\$6 195 769</u>	<u>\$5 810 101</u>	<u>\$385 668</u>	<u>\$414 154</u>

13. FIXED ASSETS FUND – BANK ADVANCES

	2006	2005
Demand loans from a financial institution, authorized by decree for a maximum amount of \$819 500 (2005: \$1 052 000) and bearing interest at the Institution's Canadian prime rate, i.e. 5.50% at March 31, 2006 (2005: 4.25%).	<u>\$398 500</u>	<u>\$578 700</u>

14. OPERATING FUND – CREDIT LINE

Under Order-in-Council 1720-92 dated December 2, 1992, the Musée is authorized to contract short-term borrowings up to \$1 000 000 from financial institutions. At March 31, 2005 and 2006, no amount was owing.

15. LONG-TERM DEBT

	2006				2005			
	Fixed Assets Fund		Fundraising Campaign Fund		Total		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.771%, guaranteed by the Gouvernement du Québec, repayable in 8 annual instalments of \$311 252 beginning June 3, 2006 and a final instalment of \$2 178 763 on June 3, 2014* (Amounts carried forward)	<u>\$4 668 779</u>	<u>\$4 780 986</u>			<u>\$4 668 779</u>	<u>\$4 780 986</u>	<u>\$4 941 312</u>	<u>\$5 175 668</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

15. LONG-TERM DEBT (cont'd)

	2006						2005	
	Fixed Assets Fund		Fundraising Campaign Fund		Total		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Amounts brought forward	\$4 668 779	\$4 780 986			\$4 668 779	\$4 780 986	\$4 941 312	\$5 175 668
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	117 574	125 323	\$470 295	\$501 290	587 869	626 613	671 850	721 625
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	451 447	485 724			451 447	485 724	492 487	539 816
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	357 560	362 795			357 560	362 795		
	5 595 360	5 754 828	470 295	501 290	6 065 655	6 256 118	6 105 649	6 437 109
Less: current portion	392 926	392 926	67 185	67 185	460 111	460 111	433 854	433 854
	<u>\$5 202 434</u>	<u>\$5 361 902</u>	<u>\$403 110</u>	<u>\$434 105</u>	<u>\$5 605 544</u>	<u>\$5 796 007</u>	<u>\$5 671 795</u>	<u>\$6 003 255</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**15. LONG-TERM DEBT** (cont'd)

- * At March 31, 2005: Borrowing on a note from the Québec government Financing Fund, 9.5%, guaranteed by the Québec government, repayable in 9 annual instalments of \$308 832 beginning April 1, 1996 with a final instalment of \$4 941 312 on April 1, 2005. A payment of \$308 832 was made on April 1, 2005 and the balance of \$4 632 480 was refinanced with the Québec government Financing Fund.

The principal on these loans is paid in annual instalments out of the Gouvernement du Québec subsidy received for this purpose.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

2007	\$460 111
2008	460 111
2009	460 111
2010	460 111
2011	419 070

16. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

The deferred subsidies shown in the Fixed Assets Fund include the non-amortized portion of contributions received and receivable in the form of subsidies.

	2006	2005
Opening balance	\$162 559	\$315 975
Specific subsidy for the long-term debt	354 700	
Amortization of deferred subsidies	(152 396)	(153 416)
Closing balance	<u>\$364 863</u>	<u>\$162 559</u>

17. FUTURE FRINGE BENEFITS**Pension plans**

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

The Musée's contributions charged to the year-end statement amount to \$175 565 (2005: \$140 040). The Musée's liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	2006	2005
Closing balance	\$747 291	\$706 196
Charge for the year	125 830	123 952
Benefits paid during the year	(75 595)	(82 857)
Closing balance	<u>\$797 526</u>	<u>\$747 291</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

18. 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.

19. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Musée must assess its different job categories. When these financial statements were prepared, the Musée was not in a position to evaluate the amount it might have to disburse, if applicable, given that this process was not yet completed. Consequently, no amount was recorded in the financial statements.

20. FINANCIAL INSTRUMENTS**Fair value**

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

The fair value of the investments quoted corresponds to their stock market value the date of the financial statements. The fair value of fixed-income securities is determined using the evaluation methods used in capital markets, such as discounting to the current interest rate as future cash flows.

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

21. COMPARATIVE FIGURES

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

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Musée d'art contemporain de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the budget, audit and management advisory committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Marc Mayer
Director General

Suzanne Filiatrault
Director General, Administration

Montréal, June 2, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Musée d'art contemporain de Montréal as at March 31, 2006, and the income and changes in fund balances and cash flow statements for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 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, June 2, 2006

MUSÉE DE LA CIVILISATION
(R.S.Q., c. M-44)

REVENUE
for the year ended March 31, 2006

	2006				2005
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total
					Total
REVENUES					
Gouvernement du Québec subsidies					
Operations	\$15 765 300				\$15 765 300
Other (Note 4)	4 348 688		\$2 475 655	\$147 037	6 971 380
Other subsidies for specific projects	283 232				283 232
Financial sponsorships (Note 5)	433 083				433 083
Fondation du Musée de la civilisation - contribution	25 000				25 000
Admission fees	877 869				877 869
Gift shop	606 499				606 499
Exhibition loans	493 390				493 390
Franchises and rentals	568 573				568 573
Sales of goods and services	498 461				498 461
Interest on cash	181 807				181 807
Other	79 361				79 361
	<u>24 161 263</u>		<u>2 475 655</u>	<u>147 037</u>	<u>26 783 955</u>
Sponsorships in exchange for goods and services	372 951				372 951
	<u>372 951</u>				<u>481 215</u>
Amounts carried forward	<u>\$24 534 214</u>		<u>\$2 475 655</u>	<u>\$147 037</u>	<u>\$27 156 906</u>
					<u>\$27 279 040</u>

MUSÉE DE LA CIVILISATION

REVENUE (cont'd)
for the year ended March 31, 2006

	2006				2005	
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
Amounts brought forward	\$24 534 214		\$2 475 655	\$147 037	\$27 156 906	\$27 279 040
EXPENSES						
Salaries and fringe benefits (Note 6)	12 864 408			3 250	12 867 658	11 468 117
Professional services	4 034 535			23 633	4 058 168	3 946 445
Rent	340 963				340 963	269 593
Transportation and communications	1 390 510			3 605	1 394 115	2 069 073
Furniture, equipment and energy	1 758 296		5 690	1 038	1 765 024	1 973 649
Maintenance and repairs	949 999		145 996		1 095 995	985 809
Administrative expenses	139 575				139 575	369 455
Municipal and school taxes	783 590				783 590	748 076
Acquisitions for Musée collections	78 630				78 630	54 439
	22 340 506		151 686	31 526	22 523 718	21 884 656
Interest on long-term debt	697 128		873 183		1 570 311	1 478 865
Depreciation of fixed assets	1 392 957		1 450 786	115 511	2 959 254	2 656 655
	2 090 085		2 323 969	115 511	4 529 565	4 135 520
Exchange for goods and services						
Professional services	114 070				114 070	17 313
Transportation and communications	236 403				236 403	419 840
Equipment and supplies	22 478				22 478	44 062
	372 951				372 951	481 215
	24 803 542		2 475 655	147 037	27 426 234	26 501 391
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES BEFORE SPECIAL ITEM	(269 328)				(269 328)	777 649
Extraordinary gain (loss) resulting from flooding (Note 7)	142 208				142 208	(25 000)
SURPLUS (INSUFFICIENT) EXPENSES OVER REVENUES	\$(127 120)				\$(127 120)	\$752 649

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

CHANGE IN FUND BALANCES
for the year ended March 31, 2006

	2006				2005	
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
OPENING BALANCE	\$3 022 308	\$874 796			\$3 897 104	\$3 144 455
Surplus (insufficient) revenues over expenses	(127 120)				(127 120)	752 649
	2 895 188	874 796			3 769 984	3 897 104
Interfund transfers (Note 8)	233 481	(233 481)				
Allocation of surpluses (Note 8)	(96 115)	96 115				
CLOSING BALANCE (Note 9)	<u>\$3 032 554</u>	<u>\$737 430</u>			<u>\$3 769 984</u>	<u>\$3 897 104</u>

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

BALANCE SHEET
as at March 31, 2006

	2006					
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
ASSETS						
Current assets						
Cash on hand (Note 10)	\$4 205 420			\$51 514	\$4 256 934	\$3 833 546
Accounts receivable	596 843		\$128 626		725 469	910 288
Gouvernement du Québec subsidies receivable (Note 11)	3 436 698		1 551 735		4 988 433	3 530 390
Gift shop inventory (at cost)	167 903				167 903	182 489
Prepaid expenses	288 189				288 189	395 465
Interfund payables, interest-free, no encashment terms		\$737 430	66 152			
	8 695 053	737 430	1 746 513	51 514	10 426 928	8 852 178
Deferred expenses	56 967		67 840		124 807	105 553
Gouvernement du Québec subsidies receivable (Note 11)	10 986 374		14 847 399	1 177 948	27 011 721	27 500 898
Fixed assets (Note 12)	34 166 694		5 000 384	1 031 087	40 198 165	40 892 191
	<u>\$53 905 088</u>	<u>\$737 430</u>	<u>\$21 662 136</u>	<u>\$2 260 549</u>	<u>\$77 761 621</u>	<u>\$77 350 820</u>
LIABILITIES						
Current liabilities						
Bank overdraft			\$115 765		\$115 765	
Bank loans (Note 13)			1 346 676	\$1 158 122	2 504 798	\$6 177 689
Accounts payable and accruals	\$2 838 137		310 614		3 148 751	1 647 013
Accrued interest	316 979		316 657		633 636	641 435
Provision for vacation time (Note 14)	879 504				879 504	892 124
Deferred contributions (Note 15)	338 500				338 500	407 746
Amounts carried forward	<u>\$4 373 120</u>		<u>\$2 089 712</u>	<u>\$1 158 122</u>	<u>\$7 620 954</u>	<u>\$9 766 007</u>

MUSÉE DE LA CIVILISATIONBALANCE SHEET (cont'd)
as at March 31, 2006

	2006					2005
	Working Capital Fund	Reserve Fund	Asset Mainten- ance Fund	Special Projects Fund	Total	Total
LIABILITIES (cont'd)						
Current liabilities (cont'd)						
Amounts brought forward	\$4 373 120		\$2 089 712	\$1 158 122	\$7 620 954	\$9 766 007
Deferred revenue	119 701				119 701	135 642
Instalments on long-term debt (Note 16)	1 486 117		1 212 050		2 698 167	2 215 817
Interfund payables, interest-free, no repayment terms	<u>702 555</u>			<u>101 027</u>		
	6 681 493		3 301 762	1 259 149	10 438 822	12 117 466
Provision for sick leave (Note 14)	1 944 411				1 944 411	1 840 345
Deferred contributions (Note 15)	31 190 596		5 031 907	1 001 400	37 223 903	38 031 578
Long-term debt (Note 16)	<u>11 056 034</u>		<u>13 328 467</u>		<u>24 384 501</u>	<u>21 464 327</u>
	<u>50 872 534</u>		<u>21 662 136</u>	<u>2 260 549</u>	<u>73 991 637</u>	<u>73 453 716</u>
FUND BALANCES						
Invested in fixed assets	3 032 554				3 032 554	2 916 727
Inhouse allocations (Note 9)		\$737 430			737 430	874 796
Not allocated						105 581
	<u>3 032 554</u>	<u>737 430</u>			<u>3 769 984</u>	<u>3 897 104</u>
	<u>\$53 905 088</u>	<u>\$737 430</u>	<u>\$21 662 136</u>	<u>\$2 260 549</u>	<u>\$77 761 621</u>	<u>\$77 350 820</u>

COMMITMENTS (Note 21)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Henri Grondin
Jacques Mercier

MUSÉE DE LA CIVILISATION**CASH FLOW**

for the year ended March 31, 2005

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Surplus (insufficient) revenues over expenses	\$(127 120)	\$752 649
Elements not affecting liquid assets		
Amortization of deferred expenses	19 225	19 225
Depreciation of fixed assets	2 959 254	2 656 655
Amortization of deferred contributions and uncapitalized expenses	(2 997 442)	(3 306 186)
Interest capitalized to the bank borrowing	16 633	30 947
	<u>(129 450)</u>	<u>153 290</u>
Change in assets and liabilities elements of the Working Capital Fund:		
Accounts receivable	184 819	(215 079)
Gouvernement du Québec subsidies receivable	(1 458 043)	55 599
Gift shop inventory	14 586	(21 756)
Prepaid expenses	107 276	(2 645)
Deferred expenses	(38 479)	
Accounts payable and accruals	1 310 371	(200 588)
Accrued interest	(7 799)	(42 455)
Provision for vacation time	(12 620)	14 185
Deferred contributions	(69 246)	(587 186)
Deferred revenue	(15 941)	(226 998)
Provision for sick leave	104 066	(142 144)
	<u>118 990</u>	<u>(1 369 067)</u>
Cash flows related to operating activities	<u>(10 460)</u>	<u>(1 215 777)</u>
FINANCING ACTIVITIES		
Bank loans	(3 689 524)	1 844 180
Gouvernement du Québec subsidies received	2 678 944	2 196 592
Long-term debt	5 618 341	
Repayment of long-term debt	(2 215 817)	(2 215 817)
Cash flows related to financing activities	<u>2 391 944</u>	<u>1 824 955</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets and cash flows related to investment activities	<u>(2 073 861)</u>	<u>(1 690 655)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	307 623	(1 081 477)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3 833 546</u>	<u>4 915 023</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$4 141 169</u>	<u>\$3 833 546</u>

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée de la Civilisation was established under the National Museums Act (R.S.Q., c. M-44). Its functions are to make known the history and the various cultural elements of our civilization, particularly the social and material aspects of the cultures of the occupants of the territory of Québec and the cultures that have contributed to the enrichment of those cultures, to ensure the preservation and development of the ethnographic collection and other representative collections of our civilization and to ensure the participation of Québec in the international network of museological events through acquisitions, exhibitions and other cultural activities.

The Musée de la Civilisation has been recognized as a charitable organization within the meaning of the Income Tax Act and is, consequently, eligible for the tax exemption (federal and provincial) pertaining to such organizations.

2. FUND PURPOSES

The Working Capital Fund presents the assets, liabilities, proceeds and charges related to the Musée's current operations and commercial activities such as operation of the gift shops and restaurant and exhibition and room rental. The Musée requires the government's authorization to acquire, dispose of, mortgage or lease a building.

At the end of the fiscal year, any excess in proceeds over charges greater than \$50 000 in the Working Capital Fund is transferred into the Exhibition Fund up to the target objective of \$600 000. In excess of this amount, the Musée will have the choice of transferring the surplus or not.

The **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** targets grouping 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 decision of the board of directors from Working Capital Fund surpluses. At March 31, 2006, this Fund grouped the reserves found in the financial statements as at March 31, 2005.

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 in order 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 will be used for temporary exhibitions and, in some cases, related activities.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. ACCOUNTING POLICIES (cont'd)**Contribution reporting**

Contributions include subsidies, sponsorships and contributions obtained in order to produce exhibitions.

Contributions are recorded using the deferral method. Appropriated contributions are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated contributions are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

Revenue reporting

Proceeds 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 fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the financing or carried out the work entitling it to these subsidies.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments that are highly liquid and easily convertible into a known amount of cash whose value is unlikely to change significantly.

Pension plans

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

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

Issue expenses on the long-term debt 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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. ACCOUNTING POLICIES (cont'd)****Services rendered by volunteers**

Due to the difficulty in determining the fair value of the services provided free of charge by volunteers, they are not considered in the Musée's proceeds and charges.

Fixed assets

Fixed assets are recorded at cost or, if they are acquired free of charge, according to the municipal assessment on the date of acquisition. They are depreciated on a straight-line basis over their estimated service lives, namely:

Buildings	40 years
Building additions and furnishings	10 years
Leasehold improvements	10 years
Furniture and equipment	5 years
Handling, storage, processing and production equipment	5 years
Lighting and sound equipment	5 years
Commercial activity equipment	5 years
Data processing and audiovisual equipment	3 years

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES – OTHER

	2006	2005
Working Capital Fund		
Specific projects	\$124 319	\$847 499
Centre d'interprétation de Place-Royale	700 000	730 000
Property taxes	359 800	339 000
Pay equity	1 227 203	
Repayment of interest on the long-term debt	689 433	731 034
Amortization of deferred contributions*	1 247 933	1 923 336
	<u>4 348 688</u>	<u>4 570 869</u>
Assets Maintenance Fund		
Repayment of interest on the long-term debt	810 891	716 883
Repayment of interest on bank borrowings to maintain assets	62 292	180 812
Amortization of deferred contributions** and uncanceled expenses	1 602 472	1 382 851
	<u>2 475 655</u>	<u>2 280 546</u>
Special Projects Fund		
Amortization of deferred contributions ** and uncanceled expenses	147 037	
	<u>\$6 971 380</u>	<u>\$6 851 415</u>

* Amortization of deferred contributions at the same rate as fixed assets (authorized by order-in-council) and in keeping with the cost of permanent exhibitions.

** Amortization of deferred contributions at the same rate as fixed assets (authorized by orders-in-council).

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. FINANCIAL SPONSORSHIPS**

	2006	2005
Working Capital Fund		
Specific sponsorships received for showing exhibitions and specific projects	\$178 791	\$93 424
Gouvernement du Québec contributions for showing exhibitions	254 292	232 995
	<u>\$433 083</u>	<u>\$326 419</u>

6. SALARIES AND FRINGE BENEFITS

On January 9, 2004, the Superior Court ruled in the pay equity file. Since that time, the Musée has done its own pay equity work, as required by the Commission de l'équité salariale, which recognized the Musée as an independent employer that is separate from the Conseil du Trésor. At March 31, 2006, the amount of retroactive pay that the Musée owed its employees was \$1 227 203, plus an additional adjustment of \$67 251 for provisions for vacation time and sick leave to be recorded.

7. EXTRAORDINARY GAIN (LOSS) RESULTING FROM AN OPINION

On December 11, 2004, flooding damaged the basement of the building housing the Musée. The costs incurred as a result of this flooding are covered by an insurance policy and break down as follows:

	2006	2005
Insurance compensation	\$491 680	\$967 028
Cost of repair and \$25 000 deductible	349 472	992 028
Extraordinary gain (loss) resulting from flooding	<u>\$142 208</u>	<u>\$(25 000)</u>

The Musée's insurers agreed to repay the cost of workers hired by the Musée to repair the basement. This work was performed and posted for the most part in fiscal 2004-2005. The insurance compensation was granted and reported in fiscal 2005-2006.

8. INTERFUND TRANSFERS

An amount of \$233 481 from the Reserve Fund's Preventive improvements – damages reserve was transferred to the Working Capital Fund to cover the cost of replacing the storm sewer system.

Musée management transferred the \$96 115 surplus to the Reserve fund's Working Capital Fund.

9. FUND BALANCE AT THE END

At March 31, the Reserve Fund breaks down as follows:

	2006	2005
Car insurance reserve	\$25 000	\$25 000
Preventive improvements – damages reserve	102 634	240 000
Exhibitions reserve	609 796	609 796
	<u>\$737 430</u>	<u>\$874 796</u>

10. CASH

Cash bears interest on a daily basis at the prime rate less 1.75%. At March 31, 2006, the rate was 3.75% (2005: 2.5%).

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable entered as current assets are as follows:

	2006	2005
Working Capital Fund		
Interest accrued on the long-term debt	\$316 978	\$337 054
Capital repayments on long-term debt payable in the coming fiscal year	1 486 117	1 324 425
Other subsidies receivable	1 633 603	589 000
	<u>3 436 698</u>	<u>2 250 479</u>
Asset Maintenance Fund		
Interest accrued on long-term debt	311 837	285 832
Capital repayments on long-term debt payable in the coming fiscal year	1 212 050	891 392
Other subsidies receivable	27 848	102 687
	<u>1 551 735</u>	<u>1 279 911</u>
	<u>\$4 988 433</u>	<u>\$3 530 390</u>

Those presented as long-term are as follows:

Working Capital Fund		
Opening balance of subsidies receivable	\$13 783 360	\$14 919 017
Amortization of deferred issuing costs	9 499	9 499
Subsidies – Le Temps des Québécois	4 057	31 713
Subsidies – La Réserve muséale de la Capitale nationale		147 556
Capital subsidies on long-term debt	(1 324 425)	(1 324 425)
	<u>12 472 491</u>	<u>13 783 360</u>
Capital repayments on long-term debt payable in the coming fiscal year	(1 486 117)	(1 324 425)
Balance of subsidies receivable in the long term	<u>10 986 374</u>	<u>12 458 935</u>
Asset Maintenance Fund		
Opening balance of subsidies receivable	15 825 399	14 977 879
Subsidies – Fixed assets and asset maintenance	1 115 716	1 729 186
Amortization of deferred issuing costs	9 726	9 726
Capital subsidies on long-term debt	(891 392)	(891 392)
Balance of subsidies receivable at year-end	16 059 449	15 825 399
Capital repayments on long-term debt payable in the coming fiscal year	(1 212 050)	(891 392)
Balance of long-term subsidies receivable	<u>14 847 399</u>	<u>14 934 007</u>
Special Projects Fund		
Balance of subsidies receivable, beginning of year	107 956	
Subsidies – Trajectoires	1 069 992	107 956
	<u>1 177 948</u>	<u>107 956</u>
	<u>\$27 011 721</u>	<u>\$27 500 898</u>

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. FIXED ASSETS**

	2006			2005
	Cost	Cumulated Depreciation	Net	Net
Fixed Assets Total				
Lands	\$2 532 891		\$2 532 891	\$2 532 891
Buildings	51 192 988	\$18 929 904	32 263 084	33 548 740
Building additions and developments	11 528 992	8 583 877	2 945 115	1 708 738
Leasehold improvements	4 233 164	3 226 434	1 006 730	1 385 068
Furnishings and equipment	2 042 853	2 025 733	17 120	13 407
Handling, storage, transformation and production equipment	2 662 693	1 672 326	990 367	1 404 260
Lighting and sound equipment	782 392	765 488	16 904	19 018
Commercial activities equipment	156 224	134 484	21 740	31 525
Computer and audiovisual equipment	1 955 787	1 551 573	404 214	248 544
	<u>\$77 087 984</u>	<u>\$36 889 819</u>	<u>\$40 198 165</u>	<u>\$40 892 191</u>

	2006			Total
	Operating Fund	Asset Maintenance Fund	Special Projects Fund	
Net Value By Fund				
Lands	\$2 532 891			\$2 532 891
Buildings	31 134 136	\$1 128 948		32 263 084
Building additions and developments	402 013	1 512 015	\$1 031 087	2 945 115
Leasehold improvements	2 400	1 004 330		1 006 730
Furnishings and equipment	4 888	12 232		17 120
Handling, storage, transformation and production equipment	58 980	931 387		990 367
Lighting and sound equipment	15 062	1 842		16 904
Commercial activities equipment		21 740		21 740
Computer and audiovisual equipment	16 324	387 890		404 214
	<u>\$34 166 694</u>	<u>\$5 000 384</u>	<u>\$1 031 087</u>	<u>\$40 198 165</u>

13. 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. The rate at March 31, 2006 was 5.50% (2005: 4.25%).

Working Capital Fund

The Gouvernement du Québec authorized the Musée to contract short-term borrowings of \$3 000 000. At March 31, 2006, there was no short-term borrowing (2005: \$899 668).

Asset Maintenance Fund

The Gouvernement du Québec also authorized the Musée to contract short-term borrowings for fixed assets and their maintenance for a maximum of \$3 021 314 (2005: \$6 770 252). At March 31, 2006, the short-term borrowings balance was \$1 346 676 (2005: \$5 185 414).

MUSÉE DE LA CIVILISATIONNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**13. BANK LOANS (cont'd)****Special Projects Fund**

The Gouvernement du Québec authorized the Musée to contract a short-term borrowing for the design and realization of a permanent Musée exhibition in the amount of \$2 300 000, plus interest. The maximum that can be borrowed from the financial institution is \$2 575 500. At March 31, 2006, the balance was \$1 158 122 (2005: \$92 607).

14. FUTURE FRINGE BENEFITS**Pension plans**

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

The Musée's contributions charged to the year-end statement amount to \$474 170 (2005: \$391 461). The liability of the Musée towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2006		2005	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$892 124	\$1 840 345	\$877 940	\$1 982 489
Charges for the year	784 903	308 451	800 622	97 839
Benefits paid during the year	(797 523)	(204 385)	(786 438)	(239 983)
Closing balance	<u>\$879 504</u>	<u>\$1 944 411</u>	<u>\$892 124</u>	<u>\$1 840 345</u>

15. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the short-term relate to the amounts received during the fiscal year and destined to cover the charges related to certain exhibitions beginning or running into subsequent fiscal years. Changes in the short-term balance are as follows:

	2006	2005
Working Capital Fund		
Opening balance	\$407 746	\$994 932
New contributions for the fiscal year	(458 083)	(1 021 055)
Amount received for subsequent fiscal years	<u>388 837</u>	<u>433 869</u>
Closing balance	<u>\$338 500</u>	<u>\$407 746</u>

With the following breakdown:

Gouvernement du Québec	\$293 800	\$285 700
Other deferred contributions	<u>44 700</u>	<u>122 046</u>
	<u>\$338 500</u>	<u>\$407 746</u>

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**15. DEFERRED CONTRIBUTIONS (cont'd)**

The deferred contributions presented as long-term include Gouvernement du Québec commitments related to fixed assets and their maintenance and to the permanent exhibitions Le Temps des Québécois and Trajectoires. Changes in the long-term balance are as follows:

	2006	2005
Working Capital Fund		
Opening balance	\$32 434 471	\$34 149 027
Subsidy – Le Temps des Québécois	4 058	31 713
Subsidy – Réserve muséale de la Capitale nationale		147 556
Amortization of deferred contributions	<u>(1 247 933)</u>	<u>(1 893 825)</u>
Closing balance	<u>31 190 596</u>	<u>32 434 471</u>
Asset Maintenance Fund		
Opening balance	5 518 662	5 172 326
Subsidies – Asset maintenance	1 115 717	1 729 186
Amortization of deferred contributions and uncapitalized maintenance and repair costs	<u>(1 602 472)</u>	<u>(1 382 850)</u>
Closing balance	<u>5 031 907</u>	<u>5 518 662</u>
Special Projects Fund		
Opening balance	78 445	
Subsidies – Trajectoires	1 069 992	107 956
Amortization of deferred contributions and uncapitalized maintenance and repair costs	<u>(147 037)</u>	<u>(29 511)</u>
	<u>1 001 400</u>	<u>78 445</u>
	<u>\$37 223 903</u>	<u>\$38 031 578</u>

16. LONG-TERM DEBT

	2006	2005
Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec.		
Working Capital Fund		
5.48% repayable in annual instalments of \$432 898 on the principal of the borrowing, maturing October 24, 2008	\$1 298 695	\$1 731 593
4.153% repayable in annual instalments of \$86 971 on the principal of the borrowing, maturing October 1, 2008	260 913	347 884
5.39% repayable in annual instalments of \$210 070 on the principal of the borrowing, maturing April 2, 2007	420 141	630 211
7.16% repayable in annual instalments of \$86 073 on the principal of the borrowing, maturing October 1, 2007	602 514	688 587
3.892% repayable in annual instalments of \$161 692 on the principal of the borrowings, maturing May 10, 2010	808 462	
5.149% repayable in annual instalments of \$508 413 on the principal of the borrowings, maturing October 1, 2013	<u>9 151 426</u>	<u>9 659 839</u>
	<u>12 542 151</u>	<u>13 058 114</u>
Instalments due within one year	<u>(1 486 117)</u>	<u>(1 324 425)</u>
Amounts carried forward	<u>\$11 056 034</u>	<u>\$11 733 689</u>

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**16. LONG-TERM DEBT** (cont'd)

	2006	2005
Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec. (cont'd)		
Amounts brought forward	\$11 056 034	\$11 733 689
Asset Maintenance Fund		
5.95% repayable in annual instalments of \$420 737 on the principal of the borrowing, maturing December 1, 2010	4 628 109	5 048 846
4.311% repayable in annual instalments of \$84 528 on the principal of the borrowing, maturing October 1, 2008	253 583	338 111
6.85% repayable in annual instalments of \$306 580 on the principal of the borrowing, maturing October 1, 2007	4 292 120	4 598 700
7.16% repayable in annual instalments of \$79 547 on the principal of the borrowing, maturing October 1, 2007	556 826	636 373
4.937% repayable in annual instalments of \$320 658 on the principal of the borrowing, maturing July 16, 2020	4 809 879	
	14 540 517	10 622 030
Instalments due within one year	(1 212 050)	(891 392)
	13 328 467	9 730 638
	\$24 384 501	\$21 464 327

Principal payments on these borrowings are made annually and biannual interest payments out of subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years, assuming that these amounts will be refinanced at the same conditions on maturing, are as follows:

2007	\$2 698 167
2008	7 204 998
2009	2 015 898
2010	1 411 500
2011	3 935 924

17. 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, 2006 amounted to \$775 746 (2005: \$664 470). 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 \$180 904 at March 31, 2006 (2005: \$151 138).

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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006**18. WORKS DONATED FOR MUSÉE COLLECTIONS**

The Musée gives receipts for donated works, the value of which is certified by the Canadian Cultural Property Export Review Board. The cumulative value of works donated since 1991 breaks down as follows:

	2006	2005
Opening balance	\$3 966 961	\$3 904 901
Receipt issued	251 767	62 060
Closing balance	<u>\$4 218 728</u>	<u>\$3 966 961</u>

19. CASH FLOWS

Cash and cash equivalents break down as follows at March 31, 2006:

	2006	2005
Cash	\$4 256 934	\$3 833 546
Bank overdraft	(115 765)	
	<u>\$4 141 169</u>	<u>\$3 833 546</u>

Interest paid

	2006	2005
Interest paid on Financing Fund borrowings	\$1 537 462	\$1 489 697
Interest paid on short-term borrowings		162 262
	<u>\$1 537 462</u>	<u>\$1 651 959</u>

The non-monetary operations of operating and investments activities break down as follows:

Acquisitions of fixed assets in consideration of creditors	<u>191 367</u>	\$ <u> </u>

20. 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, 2006 the fair value of the long-term debt of \$27 082 668 (2005: \$23 680 144) was \$28 494 732 (2005: \$25 478 838), given the discounting of cash flows at market rates for certificates of a similar nature inert terms of maturity and interest rate.

Short-term financial instruments

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

MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

21. COMMITMENTS

The Musée is committed under maintenance contracts to pay \$362 963. Amount s payable in the coming fiscal years total \$328 909 in 2007 and \$34 054 in 2008.

22. COMPARATIVE FIGURES

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

MUSÉE DE LA CIVILISATION

MANAGEMENT'S REPORT

The financial statements of the Musée de la Civilisation were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It was assisted by the audit committee, whose members are not part of management. This committee meets with management, examines the financial statements and recommends their approval to the board of directors.

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

Claire Simard
Director General

Danielle Poiré
Director of Curatorship and Administration

Québec, May 29, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Musée de la Civilisation as at March 31, 2006 and the revenue, changes in fund balances and cash flow statements for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the Musée's financial position as at March 31, 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, May 29, 2006

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC
(R.S.Q., c. M-44)

REVENUE
for the year ended March 31, 2006

	2006					2005
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endow- ment Fund	Total
						Total
REVENUES						
Gouvernement du Québec subsidies (Note 4)	\$10 105 355			\$3 499 763		\$13 605 118
Government of Canada subsidies (Note 5)	333 365					333 365
Admission and cloakroom fees	1 211 760					1 211 760
Parking		\$196 582				196 582
Gift shop and publications		712 765				712 765
Royalties – Food services		141 899				141 899
Space rental and ancillary services	77 682	270 264				347 946
Works of art and exhibitions on loan	1 184 750					1 184 750
Educational and cultural activities	231 426					231 426
Sponsorships and publicity	448 950					448 950
Contribution – Fondation du Musée national des beaux-arts du Québec (Note 7)						265 000
Art work donations (Note 8)	6 629 283					6 629 283
Other contributions and partnerships	3 235 012					3 235 012
Investment income (Note 9)	199 742	11 853				211 595
Other	26 099					26 099
Amounts carried forward	\$23 683 424	\$1 333 363		\$3 499 763		\$28 516 550
						\$22 721 743

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

REVENUE (cont'd)
for the year ended March 31, 2006

	2006					2005
	General Fund	Commercial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endowment Fund	Total
Amounts brought forward	\$23 683 424	\$1 333 363		\$3 499 763		\$28 516 550
EXPENSES						
Salaries and fringe benefits	6 616 317	249 671				6 865 988
Energy, taxes and insurance	852 536					852 536
Professional, administrative and other services	1 613 357	66 632				1 679 989
Maintenance, repairs and development	984 253	8 542		182 636		1 175 431
Transportation and communications	1 853 348	3 639				1 856 987
Materials and supplies	666 215	373 813				1 040 028
Room rental	198 747					198 747
Acquisition of works of art (Note 8)	10 828 339					10 828 339
Exhibition rental	111 129					111 129
Interest on long-term debt	110 009			1 411 691		1 521 700
Other interest	958			76 271		77 229
Amortization of deferred expenses	798			18 496		19 294
Depreciation of fixed assets				1 811 314		1 811 314
Loss on disposal of fixed assets						1 056
Bad debts	728					728
	<u>23 836 734</u>	<u>702 297</u>		<u>3 500 408</u>		<u>28 039 439</u>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	<u>\$(153 310)</u>	<u>\$631 066</u>		<u>\$(645)</u>		<u>\$477 111</u>
						<u>\$451 469</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CHANGES IN FUND BALANCES
for the year ended March 31, 2006

	2006					2005
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endow- ment Fund	Total
OPENING FUND BALANCES	\$527 256	\$400 000		\$1 427 302	\$1 043 716	\$3 398 274
Surplus (insufficient) revenues over expenses	(153 310)	631 066		(645)		477 111
Interfund transfers (Note 10)	(368 934)	(631 066)	\$1 000 000			
CLOSING FUND BALANCES	<u>\$5 012</u>	<u>\$400 000</u>	<u>\$1 000 000</u>	<u>\$1 426 657</u>	<u>\$1 043 716</u>	<u>\$3 875 385</u>
						<u>\$3 398 274</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006					2005
	General Fund	Commercial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endowment Fund	Total
ASSETS						
Current assets						
Cash on hand, 3.6%	\$1 674 152	\$711 622			\$1 480	\$2 387 254
Accounts receivable and accrued interest (Note 11)	924 254	1 773			5	926 032
Interfund receivables, interest-free and no encashment terms			\$1 000 000	\$48 781		
Subsidies receivable						
Gouvernement du Québec (Note 12)	214 741			2 780 932		2 995 673
Government of Canada	10 000					10 000
Stocks		332 892				332 892
Prepaid expenses	249 363					249 363
	<u>3 072 510</u>	<u>1 046 287</u>	<u>1 000 000</u>	<u>2 829 713</u>	<u>1 485</u>	<u>6 901 214</u>
Contribution receivable (Note 13)	1 144 000					1 144 000
Portfolio investments (Note 14)	2 012 636				1 266 503	3 279 139
Deferred expenses				165 970		165 970
Gouvernement du Québec subsidies receivable (Note 12)	141 838			22 739 363		22 881 201
Fixed assets (Note 15)				<u>26 667 065</u>		<u>26 667 065</u>
	<u>\$6 370 984</u>	<u>\$1 046 287</u>	<u>\$1 000 000</u>	<u>\$52 402 111</u>	<u>\$1 267 988</u>	<u>\$61 038 589</u>
						<u>\$60 273 055</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2006

	2006					2005
	General Fund	Commercial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endowment Fund	Total
LIABILITIES						
Current liabilities						
Bank overdraft				\$1 907		\$1 907
Bank loans (Note 16)				684 000		684 000
Accounts payable and accruals (Note 17)	\$1 290 910	\$3 093				1 294 003
Provision for vacation time (Note 22)	695 872					695 872
Interfund receivables, interest-free and no repayment terms	181 315	643 194			\$224 272	
Accrued interest	106 672			648 917		755 589
Client deposits and deferred income	420 669					420 669
Deferred contributions (Note 18)	213 803					213 803
Instalments on long-term debt (Note 19)	555 415			2 097 780		2 653 195
	3 464 656	646 287		3 432 604	224 272	6 719 038
Provision for sick leave (Note 22)	794 976					794 976
Deferred investment income	404 637					404 637
Deferred contributions (Note 18)				25 408 619		25 408 619
Long-term debt (Note 19)	1 701 703			22 134 231		23 835 934
	6 365 972	646 287		50 975 454	224 272	57 163 204
FUND BALANCES						
Fixed asset investments				1 426 657		1 426 657
Internal restrictions		400 000	\$1 000 000		1 043 716	2 443 716
Non-appropriated funds	5 012					5 012
	5 012	400 000	1 000 000	1 426 657	1 043 716	3 875 385
	\$6 370 984	\$1 046 287	\$1 000 000	\$52 402 111	\$1 267 988	\$61 038 589
						\$60 273 055

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
Claude Côté

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CASH FLOW
for the year ended March 31, 2006

	2006					2005
	General Fun	Commer- cial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endow- ment Fun	Total
OPERATING ACTIVITIES						
Surplus (insufficient) revenues over expenses	\$(153 310)	\$631 066		\$(645)		\$477 111
Items not affecting liquid assets						\$451 469
Amortization of deferred expenses	798			18 496		19 294
Depreciation of fixed assets				1 811 314		1 811 314
Amortization of deferred contributions - long term				(2 011 801)		(2 011 801)
Loss on disposal of fixed assets						1 056
	(152 512)	631 066		(182 636)		295 918
Change in assets and liabilities related to operation (Note 20)	442 108	(25 571)		(309 505)	\$(2)	107 030
Cash flows related to operating activities	289 596	605 495		(492 141)	(2)	402 948
INVESTMENT ACTIVITIES						
Acquisition of investments	(316 621)				(208 099)	(524 720)
Proceeds from disposal of investments	211 000				143 000	354 000
Acquisitions of fixed- assets				(538 924)		(538 924)
Proceeds from disposal of fixed assets						1 250
Cash flows related to investments activities	(105 621)			(538 924)	(65 099)	(709 644)
Amounts carried forward	\$183 975	\$605 495		\$(1 031 065)	\$(65 101)	\$(306 696)
						\$(905 293)

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CASH FLOWS (cont'd)
for the year ended March 31, 2006

	2006					2005
	General Fun	Commer- cial Activities Fund	Exhibition Fund	Fixed Assets Fund	Endow- ment Fun	Total
Amounts brought forward	\$183 975	\$605 495		\$(1 031 065)	\$(65 101)	\$(306 696)
FINANCING ACTIVITIES						
Contributions received	1 144 000					1 144 000
Gouvernement du Québec subsidies	(141 838)			2 150 274		2 008 436
Bank loans	(175 000)			(3 795 900)		(3 970 900)
Long-term debt	177 298			4 495 045		4 672 343
Repayment of long-term debt	(519 955)			(1 770 940)		(2 290 895)
Cash flows related to financing activities	484 505			1 078 479		1 562 984
CHANGE IN CASH AND CASH EQUIVALENTS	668 480	605 495		47 414	(65 101)	1 256 288
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	572 457	571 829		498	1 480	1 146 264
Interfund cash flow	433 215	(465 702)		(49 819)	65 101	(17 205)
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	<u>\$1 674 152</u>	<u>\$711 622</u>		<u>\$(1 907)</u>	<u>\$1 480</u>	<u>\$2 385 347</u>
						<u>\$1 146 264</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

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 within the meaning of the Income Tax Act and, as a result, is eligible for the tax exemption applicable to such organizations.

2. FUND OBJECTIVES

The Operating Fund presents the Musée's current operations.

The Commercial Activities Fund presents the Musée's commercial activities such as operation of the bookstore-gift shop, 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 on March 31, 2006 to finance the realization of 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 cannot exceed \$2 000 000.

The Fixed Assets Fund presents the assets, liabilities, products and charges related to fixed assets. That portion of the Fund's balance that is not invested in fixed assets is reserved for the acquisition of fixed assets for the Musée and the payment of related fees. Moreover, the Musée may not, without the Government's prior authorization, acquire, dispose of, mortgage or rent an immovable.

The Endowment Fund presents the resources received in the form of endowments. Under a regulation approved by the Government, only investment income from the resources of this Fund may be used for fixed assets and the acquisition of works of art for the Musée collection.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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 Fixed Assets Fund include Gouvernement du Québec subsidies for fixed 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 proceeds when they are received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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.

Proceeds reporting

Proceeds from ticket sales, cloakroom and parking, food service royalties, space rental and related services, art work and exhibition rental and dissemination and educational and cultural activities are reported when the service is rendered to the client.

Proceeds from gift shop sales and publications are reported when the good is remitted to the client.

Investment proceeds

Interest proceeds are reported according to the number of days the investment is held during the fiscal year. Gains or losses on the disposal of investments are established using the average cost method. Redistribution of capital is posted when these amounts are encashed.

Works of art

Acquisitions of works of art are charged to expenditure of 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 made known.

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 recorded as proceeds from the appropriate fund in the fiscal year in which the related charged are incurred.

Inventory

Inventory is valued at the lesser value (cost or net realizable value). Cost is determined according to 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 issue expenses on the long-term debt are deferred and amortized over the term of the debt. Discounts are amortized using the effective interest method to reflect the difference between the effective rate and the nominal rate of the debt. Issue expenses are amortized using the straight-line method over a period of 5 and 15 years.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. ACCOUNTING POLICIES (cont'd)

Subsidies receivable

Subsidies receivable related to fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the funding or carried out the work entitling it to these subsidies.

Fixed assets

Fixed assets are recorded at cost or, if acquired free of charge, at the municipal assessment on the date of acquisition. They are depreciated over their estimated service lives on a diminishing-balance basis, at the following rates:

Buildings	40 years
Building development	10 years
Outside developments	10 years
Rolling stock	15 years
Specialized equipment	10 years
Furniture and office equipment	5 years
Computer and office automation equipment	3 years

Customer deposits and deferred revenues

Deferred revenues comprise amounts invoiced for services not yet rendered and customer deposits encashed in advance, in keeping with contractual agreements.

Deferred contributions

The deferred contributions presented in the General Fund are designed mainly to cover the charges of certain exhibitions beginning or continuing into subsequent fiscal years and are transferred to revenues in the fiscal year in which the related charges are committed.

The deferred contributions presented in the Fixed Assets Fund are related to the fixed assets and their maintenance and are transferred to revenues according to the same method and service life as those used for the amortization of the fixed assets to which they refer.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand minus bank overdrafts.

Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise 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

	2006			2005
	General Fund	Fixed Assets Fund	Total	Total
Operating expenses	\$9 970 181		\$9 970 181	\$10 165 199
Specific projects*	127 400		127 400	603 328
Interest on long-term debt and other interest	7 774	\$1 487 962	1 495 736	1 525 768
Long term – Amortization of deferred Gouvernement du Québec contributions		2 011 801	2 011 801	2 014 622
	<u>\$10 105 355</u>	<u>\$3 499 763</u>	<u>\$13 605 118</u>	<u>\$14 308 917</u>

* These subsidies are obtained primarily for the realization of exhibitions.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. GENERAL FUND - GOVERNMENT OF CANADA SUBSIDIES

	2006	2005
Department of Foreign Affairs and du Commerce international	\$4 800	
Department of Heritage Canada	79 045	\$13 798
Canada Council	249 520	252 615
	<u>\$333 365</u>	<u>\$266 413</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 income at the fair value of the goods and services exchanged:

	2006	2005
Revenues		
Admission and cloakroom fees	\$9 596	\$11 688
Room rental and related services	77 682	95 022
Sponsorships and publicity	103 550	55 779
	<u>\$190 828</u>	<u>\$162 489</u>
Expenses		
Professional, administrative and other services	\$31 593	\$29 590
Rental of equipment and space	44 464	44 386
Transportation and communications	114 771	84 713
Supplies		3 800
	<u>\$190 828</u>	<u>\$162 489</u>

7. GENERAL FUND – CONTRIBUTION DE LA FONDATION DU MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

The Fondation du Musée national des beaux-arts du Québec, on which the Musée exercises notable influence, is incorporated under Part III of the Québec Companies Act. It targets promoting the interests of the Musée national des beaux-arts du Québec in carrying out its mandate, enriching the Musée's permanent collection and seeking and receiving donations, subsidies, bequests and other contributions of a similar nature. To help the Fondation fulfil its mandate, the Musée provides it with some office space and staff required for its smooth operation. Should the Fondation wind down, the full balance of funds would be remitted to the Musée. Fund balances as at March 31, 2006 amounted to \$320 936 (2005: \$201 978). During the fiscal year, the Fondation did not make any contribution (2005: \$100 000).

8. GENERAL FUND – WORKS OF ARTS

Works owned by the Musée du Québec are divided between the permanent and study collection and the collection of works for loan.

The Musée's permanent and study collections comprise art work divided into 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 as a measure to stimulate artistic creation in Québec through the acquisition of works by young artists. This collection, which contains the same type of works as the permanent collection, is intended for show primarily in public buildings of the Gouvernement du Québec and in Québec delegations abroad.

During the fiscal year, the Musée acquired 3 182 works (819 in 2005) for \$10 828 339 (\$5 326 311 in 2005), i.e. \$4 199 056 by purchase (\$1 534 341 in 2005) and \$6 629 283 by donation (\$3 791 970 in 2005).

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**9. INVESTMENT INCOME**

	2006	2005
Revenue from unappropriated resources	\$211 595	\$184 082
Revenue from resources held as allocations	58 758	152 838
Total investment income earned during the fiscal year	270 353	336 920
Minus deferred amounts appropriated to fixed assets and acquisition of works of art for the Musée collection	(58 758)	(152 838)
Total investment income accounted for as proceeds	\$211 595	\$184 082

10. INTERFUND TRANSFERS

An amount of \$631 066 (2005: \$537 227), representing the portion of the Commercial Activities Fund balance exceeding \$400 000, was transferred to the Operating Fund to finance disbursements related to repaying Musée borrowings or activities.

An amount of \$1 000 000 was transferred from the new Exhibition Fund's operations.

11. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2006	2005
Fondation du Musée national des beaux-arts du Québec, interest-free	\$11 694	
Accrued interest	11 079	\$3 712
Taxes receivable	198 241	115 717
Contribution receivable and other accounts	705 018	273 891
	\$926 032	\$393 320

12. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**Operating Fund**

Gouvernement du Québec subsidies receivable presented in the short term break down as follows:

	2006	2005
Interest receivable	\$2 681	\$17 256
Repayment of capital on the long-term debt to be made in next fiscal year	35 460	
Other subsidies receivable	176 600	361 345
	\$214 741	\$378 601

Those presented as long-term break down as follows:

	2006	2005
Subsidies receivable for realization of exhibitions	\$177 298	
Repayment of capital on long-term debt to be made in next fiscal year	(35 460)	
	\$141 838	

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)**Fixed Assets**

Gouvernement du Québec subsidies receivable presented in the short term break down as follows:

	2006	2005
Interests receivable	\$683 152	\$753 474
Repayment of capital on the long-term debt to be made in next fiscal year	<u>2 097 780</u>	<u>1 770 940</u>
	<u>\$2 780 932</u>	<u>\$2 524 414</u>

Those presented as long-term break down as follows:

	2006	2005
Subsidies receivable for fixed assets and their maintenance	\$24 837 143	\$25 886 667
Repayment of capital on long-term debt to be made in next fiscal year	<u>(2 097 780)</u>	<u>(1 770 940)</u>
	<u>\$22 739 363</u>	<u>\$24 115 727</u>

13. CONTRIBUTION RECEIVABLE

A contribution from a jointly-controlled entity was granted to the Musée to repay a long-term debt contracted for the acquisition of works of art. The total amount of this contribution was \$2 860 000, of which \$1 144 000 was encashed this fiscal year. The balance receivable breaks down as follows:

	2006	2005
Contribution receivable	\$1 716 000	
Encashments maturing within one year	<u>(572 000)</u>	
	<u>\$1 144 000</u>	

14. 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.

General Fund

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Money Market Fund, yield 3.81%	\$254 707	\$253 936	\$290 204	\$289 460
Bond Fund, yield 4.46%	1 263 132	1 253 327	1 080 275	1 085 907
Stock Fund	<u>494 797</u>	<u>603 813</u>	<u>536 536</u>	<u>579 931</u>
	<u>\$2 012 636</u>	<u>\$2 111 076</u>	<u>\$1 907 015</u>	<u>\$1 955 298</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**14. INVESTMENTS (cont'd)****Endowment Fund**

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Money Market Fund, yield 3.81%	\$163 233	\$162 756	\$190 216	\$189 746
Bond Fund, yield 4.46%	793 965	788 151	678 900	682 794
Stock Fund	309 305	376 325	332 288	357 636
	<u>\$1 266 503</u>	<u>\$1 327 232</u>	<u>\$1 201 404</u>	<u>\$1 230 176</u>

15. FIXED ASSETS FUND – FIXED ASSETS

	2006		2005	
	Cost	Accumulated depreciation	Net	Net
Land*	\$1 210 250		\$1 210 250	\$1 210 250
Buildings*	44 274 059	\$22 087 940	22 186 119	23 153 419
Building development	5 447 381	3 700 493	1 746 888	1 978 298
Outside development	521 917	375 223	146 694	145 715
Automotive equipment	159 188	41 065	118 123	113 820
Specialized equipment	1 734 768	804 660	930 108	899 460
Office furniture and equipment	310 731	225 957	84 774	121 765
Computer and office automation equipment	2 311 740	2 067 631	244 109	299 523
	<u>\$55 970 034</u>	<u>\$29 302 969</u>	<u>\$26 667 065</u>	<u>\$27 922 250</u>

* The Musée acquired these moveables from the Gouvernement du Québec in 1985 and 1988 for the price of \$1 each. They were recorded according to the municipal assessment for these years. Subsequently, the Government authorized various expansion projects and major repairs.

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, 2006, the Musée had not contracted this borrowing.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**16. BANK BORROWINGS (cont'd)****Fixed Assets Fund**

The Gouvernement du Québec authorized the Musée to contract the following bank borrowings for fixed assets maintenance:

	<u>2006</u>	<u>2005</u>
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$822 800 bearing interest at the prime rate, contracted May 1, 2004, maturing June 30, 2005.		\$822 800
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$705 200 bearing interest at the prime rate, contracted August 1, 2004, maturing June 30, 2005.		705 200
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$808 800 bearing interest at the prime rate, contracted August 1, 2004, maturing June 30, 2005.		808 800
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$1 313 700 bearing interest at the prime rate, contracted May 1, 2004, maturing June 30, 2005.		1 313 700
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$809 400 bearing interest at the prime rate, contracted June 14, 2004, maturing June 30, 2005.		809 400
Credit line payable on demand, authorized by Order-in-Council for a maximum of \$821 600 bearing interest at the prime rate, contracted February 28, 2005, maturing October 31, 2006.	\$664 000	20 000
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 October 31, 2006.	<u>20 000</u>	
	<u>\$684 000</u>	<u>\$4 479 900</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings, including borrowing fees for long-term financing, totalled \$1 663 470 (2005: \$5 326 099). The bank's prime rate was 5.5% at March 31, 2006 (4.25% at March 31, 2005).

17. ACCOUNTS PAYABLE AND ACCRUED

	<u>2006</u>	<u>2005</u>
Fondation du Musée national des beaux-arts du Québec, interest-free		\$65 000
Salaries and fringe benefits payable	\$186 008	204 760
Other accounts receivable	<u>1 107 995</u>	<u>951 125</u>
	<u>\$1 294 003</u>	<u>\$1 220 885</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

18. DEFERRED CONTRIBUTIONS**Operating Fund**

	2006	2005
Opening balance	\$176 851	\$758 150
Amount recorded as proceeds for the fiscal year	(132 595)	(721 299)
Amount received for subsequent fiscal years	169 547	140 000
Closing balance	<u>\$213 803</u>	<u>\$176 851</u>
Breaking down as follows:		
Gouvernement du Québec	\$133 900	\$136 975
Gouvernement du Canada	10 556	19 876
Other deferred income	69 347	20 000
	<u>\$213 803</u>	<u>\$176 851</u>

Fixed Assets Fund

	2006	2005
Opening balance	\$26 646 510	\$27 682 381
Gouvernement du Québec subsidies	773 910	978 751
Amortization of deferred contributions	(2 011 801)	(2 014 622)
Closing balance	<u>\$25 408 619</u>	<u>\$26 646 510</u>

19. LONG-TERM DEBT**Operating Fund**

	2006	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*	\$177 298	
Note to charge, 5%, repayable in annual instalments of \$519 955, maturing in April 2009	2 079 820	
	2 257 118	
Instalments due within one year	(555 415)	
	<u>\$1 701 703</u>	

* Principal payments on these borrowings are made annually and interest is paid biannually, out of subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

2007	\$555 415
2008	555 415
2009	555 415
2010	555 415
2011	35 458

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**19. LONG-TERM DEBT** (cont'd)**Fixed Assets Fund**

	2006	2005
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	\$17 167 016	\$18 597 601
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	986 490	1 150 905
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	1 583 460	1 759 400
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	3 679 939	
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	815 106	
	24 232 011	21 507 906
Instalments due within one year	(2 097 780)	(1 770 940)
	<u>\$22 134 231</u>	<u>\$19 736 966</u>

Principal payments on these borrowings are made annually, and interest is paid biannually, out of subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

2007	\$2 097 780
2008	3 329 360
2009	1 921 840
2010	1 921 840
2011	2 086 252

20. CASH FLOWS

Variations in assets and liabilities linked to operations break down as follows:

Operating Fund

	2006	2005
Accounts receivable and accrued interest	\$39 934	\$423 631
Subsidies receivable	162 860	736 077
Prepaid expenses	(28 496)	(2 376)
Deferred expenses	(798)	
Accounts payable and accruals	70 025	(197 589)
Provision for vacation time	53 411	39 359
Accrued interest	2 599	82
Client deposits and deferred income	81 307	53 613
Deferred contributions – short term	36 952	(581 299)
Provision for sick leave	(34 444)	(260 827)
Deferred investment income	58 758	152 838
	<u>\$442 108</u>	<u>\$363 509</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**20. CASH FLOWS (cont'd)**

Variations in assets and liabilities linked to operations break down as follows: (cont'd)

Commercial Activities Fund

	2006	2005
Accounts receivable and accrued interest	\$(644)	\$(182)
Inventory	(28 020)	(94 236)
Accounts payable and accruals	3 093	
	<u>\$(25 571)</u>	<u>\$(94 418)</u>

Fixed Assets Fund

	2006	2005
Subsidies receivable	\$(256 518)	\$27 022
Deferred expenses	(35 145)	
Accrued interest	(17 842)	(54 264)
	<u>\$(309 505)</u>	<u>\$(27 242)</u>

Endowment Fund

	2006	2005
Accounts receivable and accrued interest	<u>\$(2)</u>	<u>\$8 917</u>

Total of funds

	2006	2005
Accounts receivable and accrued interest	\$39 288	\$432 366
Subsidies receivable	(93 658)	763 099
Inventory	(28 020)	(94 236)
Prepaid expenses	(28 496)	(2 376)
Deferred expenses	(35 943)	
Accounts payable and accruals	73 118	(197 589)
Provision for vacation time	53 411	39 359
Accrued interest	(15 243)	(54 182)
Client deposits and deferred income	81 307	53 613
Deferred contributions – short term	36 952	(581 299)
Provision for sick leave	(34 444)	(260 827)
Deferred investment income	58 758	152 838
	<u>\$107 030</u>	<u>\$250 766</u>

Non-monetary operations from operating, investment and financing activities break down as follows:

	2006	2005
Contribution receivable in consideration of long-term borrowings	\$(2 860 000)	
Accrued interest	103 991	
Client deposits and deferred income	156 234	
Long-term debt	2 599 775	
Acquisitions of fixed assets in consideration of interfund payables	(17 205)	

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

20. CASH FLOWS (cont'd)

The Musée's cash and cash equivalents comprise cash on hand minus the bank overdraft.

Interest paid during the fiscal year totalled \$1 510 181 (\$1 573 036 in 2005).

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**

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

The Musée's contributions charged to the year-end statement amount to \$266 356 (2005: \$213 839) for the General Fund and \$7 071 (2005: \$6 355) for the Commercial Activities Fund. The Musée's liability towards these Government plans is restricted to its contributions as an employer.

Provision for vacation time and sick leave

	2006		2005	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$642 461	\$829 420	\$603 102	\$1 090 247
Charge for the year	499 430	117 691	489 527	(153 075)
Benefits paid during the year	(446 019)	(152 135)	(450 168)	(107 752)
Closing balance	<u>\$695 872</u>	<u>\$794 976</u>	<u>\$642 461</u>	<u>\$829 420</u>

23. FINANCIAL INSTRUMENTS**Investments**

The fair value of investments is presented in Note 14. 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.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2006

23. FINANCIAL INSTRUMENTS (cont'd)

Long-term debt

At March 31, 2006, the fair value of the \$26 489 129 (2005: \$21 507 906) long-term debt was \$28 670 383 (2005: \$23 597 035), given the discounting of cash flows as market rates for securities whose maturity dates and interest rates are similar.

Current assets and liabilities

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

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 expenditure for the fiscal year ending March 31, 2006 for these premises totalled \$180 904. Minimum future payments break down as follows:

2007	\$180 904
2008	180 904
2009	180 904
2010	180 904
2011	180 904
2012 and thereafter	2 216 074

25. CONTINGENCIES

The Musée's unionized employees are represented by two unions whose respective collective agreements matured on June 30, 2003 and December 31, 2003. On renewing these agreements, the salary adjustments provided for in the Act respecting conditions of employment in the public sector will be applied to the Musée's wage scales retroactively to April 1, 2006.

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

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**MANAGEMENT'S REPORT**

for the year ended March 31, 2006

The financial statements of the Musée national des beaux-arts du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

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

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

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

John R. Porter, C.Q. MSRC
Executive Director

Marc Delaunay
Director, Administration and Communications

Québec, May 19, 2006

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, 2006 and the revenue, changes in fund balances and cash flow statements for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, with the exception of the effects, indicated in the preceding paragraph, of the improper recording of the charges related to the sick leave and vacation time of Musée employees, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 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, May 19, 2006

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS
(R.S.Q., c. O-2.1)

OPERATIONS AND SURPLUS
for the year ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUE		
Gouvernement du Québec contribution	\$19 050 427	\$17 861 556
Interest	<u>3 853</u>	<u>933</u>
	<u>19 054 280</u>	<u>17 862 489</u>
EXPENDITURE		
Income security benefits	... 17 130 127	... 16 441 056
Administrative expenses		
Salaries and fringe benefits	975 577	999 027
Travel	158 585	162 117
Rent	99 048	94 752
Professional fees	16 804	3 740
Data processing and maintenance	275 508	151 741
Supplies and equipment	25 018	27 336
Telephone and communications	15 443	16 278
Bank and interest fees	23 228	1 378
Depreciation of fixed assets	<u>166 143</u>	<u>78 167</u>
	... 1 755 354	... 1 534 536
	<u>18 885 481</u>	<u>17 975 592</u>
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE	168 799	(113 103)
(DEFICIT) SURPLUS, BEGINNING OF YEAR	<u>(54 559)</u>	<u>58 544</u>
SURPLUS (DEFICIT), END OF YEAR	<u>\$114 240</u>	<u>\$(54 559)</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, 2005

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash (Note 3)	\$221 611	\$90 296
Term deposit (Note 4)	510 000	55 000
Accounts receivable (Note 5)	2 597 665	2 447 247
Prepaid expenses	<u>7 132</u>	<u></u>
	3 336 408	2 592 543
Fixed assets (Note 6)	<u>678 099</u>	<u>715 717</u>
	<u><u>\$4 014 507</u></u>	<u><u>\$3 308 260</u></u>
LIABILITIES		
Current liabilities		
Borrowing (Note 7)	\$734 867	\$862 801
Accounts payable (Note 8)	2 693 444	2 481 315
Owed to Insurance Fund (Note 13)	21 956	18 703
Deferred revenue	<u>450 000</u>	<u></u>
	3 900 267	3 362 819
SURPLUS (DEFICIT)	<u>114 240</u>	<u>(54 559)</u>
	<u><u>\$4 014 507</u></u>	<u><u>\$3 308 260</u></u>
COMMITMENTS (Note 9)		
INSURANCE FUND (Note 13)		

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, 2005

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 organization is not subject to income tax.

2. ACCOUNTING POLICIES

The Board's financial statements were prepared by management in keeping with Canadian generally accepted accounting principles. These statements include amounts based on best judgments and estimates.

Cash flow

The cash flow statement has not been presented, since it contains no additional information that would be useful for understanding cash flows during the year.

Administrative expenses assumed by the Gouvernement du Québec

The cost of certain support services assumed by the Gouvernement du Québec has not been included in the statement of operations and surplus.

Pension Plans

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

Benefits

Benefits are posted when authorized and when the beneficiary meets the eligibility criteria, should there be any.

Fixed assets

The fixed assets are accounted at their cost and are depreciated on their estimated useful life. The leasehold improvements are depreciated using the straight-line method on a seven-year period.

The intangible assets, consisting of software, are accounted at their cost and are depreciated using the straight-line method on their estimated useful life which is five years.

They are subject to a depreciation test when changes in condition suggest that their book value could be uncollectible. Any surplus of the book value over the fair value is allocated to the statements for the period during which the depreciation was established.

Deferred revenues

Deferred revenues represents the contribution of the Gouvernement du Québec pertaining to administrative expenditures which are allocated to a subsequent period.

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.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRISNOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005**4. TERM DEPOSITS**

The Board has term deposits bearing interest rates from 1.25% to 1.55%, expiring at various dates between July 2005 and June 2006.

5. ACCOUNTS RECEIVABLE

	2005	2004
Ministère de l'Emploi et de la Solidarité sociale subsidy receivable	\$2 596 021	\$2 446 707
Other	1 644	540
	<u>\$2 597 665</u>	<u>\$2 447 247</u>

6. FIXED ASSETS

	2005		2004
	Cost	Accumulated depreciation	Net
Tangible assets			
Leasehold improvements	\$18 416	\$5 919	\$12 497
Intangible assets			
Software	904 650	239 048	665 602
Computer development			20 768
	<u>904 650</u>	<u>239 048</u>	<u>700 590</u>
	<u>\$923 066</u>	<u>\$244 967</u>	<u>\$678 099</u>
			<u>\$715 717</u>

The financial year purchases add up to \$128 524.

7. BORROWING

On June 30, 2005, 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. At June 30, this rate was 2.86%.

8. ACCOUNTS PAYABLE

	2005	2004
Income security benefits	\$2 569 265	\$2 426 900
Ministère de l'Emploi et de la Solidarité sociale	47 943	
Suppliers	32 668	31 111
Salaries and fringe benefits	43 568	23 304
	<u>\$2 693 444</u>	<u>\$2 481 315</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

9. COMMITMENTS

The Board is committed, under contracts for professional services, to maintain its computer system until 2006 which include a two-years renewal option.

The Board is also committed under long-term leases for administrative offices expiring on various dates until 2010. In some cases, these leases include a five-year renewal option. Rental costs for the year ended June 30, 2005 for administrative offices totaled \$97 224.

Minimum future payments on these commitments are as follows:

2006	\$186 894
2007	55 136
2008	52 375
2009	44 092
2010	33 069
	<u>\$371 566</u>

10. 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 \$28 410 (2004: \$25 628). The Board's liability towards these Government plans is restricted to its contributions as an employer.

11. 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.

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Board is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to 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.

13. INSURANCE FUND

Complementary Agreement No. 15 amending Section 30 of the James Bay and Northern Québec Agreement came into effect on July 1, 2002. An insurance fund administered by the Board was created to 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.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2005

13. INSURANCE FUND (cont'd)

The Insurance Fund's results, the surplus and financial position for the year ending June 30, 2005 is as follows:

Operations and surplus	<u>2005</u>	<u>2004</u>
Revenue		
Gouvernement du Québec contribution	\$184 416	\$173 177
Beneficiaries' contribution	184 416	173 177
Interest	<u>17 521</u>	<u>8 431</u>
	<u>386 353</u>	<u>354 785</u>
Expenditure		
Sick leave and disaster benefits	263 426	278 334
Bank fees	<u>90</u>	<u>85</u>
	<u>263 516</u>	<u>278 419</u>
Excess revenue over expenditure	122 837	76 366
Surplus, beginning of year	<u>157 180</u>	<u>80 814</u>
Surplus, end of year	<u><u>\$280 017</u></u>	<u><u>\$157 180</u></u>
Balance sheet		
Current assets		
Cash	\$1 031 474	\$650 604
Board account receivable	21 956	18 703
Gouvernement du Québec account receivable	<u>21 956</u>	<u>19 815</u>
	<u><u>\$1 075 386</u></u>	<u><u>\$689 122</u></u>
Liability		
Sick leave payable	\$795 369	\$531 942
Surplus	<u>280 017</u>	<u>157 180</u>
	<u><u>\$1 075 386</u></u>	<u><u>\$689 122</u></u>

14. COMPARATIVE FIGURES

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

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 involved 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 his 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, September 30, 2005

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, 2005 and the statement of operations and 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 30, 2005

OFFICE DES PROFESSIONS DU QUÉBEC
(R.S.Q., c. C-26)

ACTIVITIES AND DEFICIT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
PROCEEDS		
Contributions from members of professional corporations	\$6 295 404	\$7 087 611
Interest	56 344	42 272
Fees for managing the Ordre des sages-femmes du Québec Fund (Note 7)	3 752	4 707
Other	<u>5 169</u>	<u>5 169</u>
	<u>6 355 500</u>	<u>7 139 759</u>
CHARGES		
Administrative expenses		
Salaries and fringe benefits	3 235 595	3 238 922
Transportation and communications	159 698	132 025
Professional and administrative services	539 934	503 088
Rent and maintenance	349 318	283 064
Materials and supplies	63 146	87 841
Interest on advances from the Consolidated Revenue Fund		2 561
Amortization of fixed assets	77 070	77 669
Amortization of intangible assets	<u>52 477</u>	<u>28 269</u>
	4 477 238	4 353 439
Fees and reimbursements (Note 3)	<u>2 030 780</u>	<u>1 781 558</u>
	<u>6 508 018</u>	<u>6 134 997</u>
(DEFICIT) SURPLUS OF PROCEEDS OVER EXPENSES	(152 518)	1 004 762
(DEFICIT) SURPLUS, BEGINNING OF YEAR	<u>30 415</u>	<u>(974 347)</u>
(DEFICIT) SURPLUS, END OF YEAR	<u><u>\$(122 103)</u></u>	<u><u>\$30 415</u></u>

The notes are an integral part of these financial statements.

OFFICE DES PROFESSIONS DU QUÉBECBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$381 231	\$734 780
Accounts receivable	<u>234 213</u>	<u>374 849</u>
	615 444	1 109 629
Fixed assets (Note 4)	183 498	128 537
Intangible assets (Note 5)	<u>325 349</u>	<u>219 732</u>
	<u>\$1 124 291</u>	<u>\$1 457 898</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$233 442	\$593 695
Provision for vacation time (Note 6)	242 838	209 255
Sum owing to the Ordre des sages-femmes du Québec (Note 7)	<u>165 923</u>	<u>96 000</u>
	642 203	898 950
Provision for sick leave (Note 6)	604 191	433 674
Sum owing to the Ordre des sages-femmes du Québec (Note 7)	<u>1 246 394</u>	<u>94 859</u>
	1 427 483	
(DEFICIT) SURPLUS	<u>(122 103)</u>	<u>30 415</u>
	<u>\$1 124 291</u>	<u>\$1 457 898</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 FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Office des professions du Québec was established by the Professional Code (R.S.Q., c. C-26) for the purpose of ensuring that all professional corporations protect the public.

The Office answers to the Minister responsible for administering the legislation governing these professions designated by the Government. Its operations are financed out of the dues paid by members of professional corporations. These dues are collected by the professional corporations, which then remit them to the Office. The Professional Code stipulates that in calculating this contribution it shall be increased or decreased to reflect deficits or surpluses from previous fiscal years.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on cash flows during the year.

Proceeds reporting

Proceeds 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 according to the number of days funds were detained during the fiscal year.

Fixed assets

Fixed assets are recorded at cost and are depreciated over their estimated service lives on a straight-line basis at the following rates:

	<u>Rates</u>
Data processing equipment	33 1/3%
Telephone equipment	20%
Furniture	20%
Leasehold improvements	Duration of occupancy agreement

Intangible assets

Computer development is recorded at cost and amortized over its service life using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that it may not be possible to recover its book value. Any excess book value over the fair value is posted to results for the period in which the depreciation was determined.

Depreciation of long-term assets

The Office examines the recoverability of its long-term assets when changes in situation indicate that their book value might not be recoverable. Any surplus in the book value over unrealized future cash flows is posted to results for the period in which the depreciation was determined.

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that 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. The honorarium or compensation amounts are set by the government along with 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.

These expenditures break down as follows:

	2006	2005
Chairs of disciplinary boards of professional corporations	\$1 672 370	\$1 419 260
Office-appointed directors	358 410	362 298
	<u>\$2 030 780</u>	<u>\$1 781 558</u>

4. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Data processing equipment	\$521 177	\$(403 515)	\$117 662
Telephone equipment	29 307	(29 293)	14
Furniture	128 414	(93 890)	34 524
Leasehold improvements	97 251	(65 953)	31 298
	<u>\$776 149</u>	<u>\$(592 651)</u>	<u>\$183 498</u>
			<u>\$128 537</u>

Acquisitions for the year amount to \$148 200 (2005: \$86 383).

5. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Cost of computer systems development	<u>\$607 718</u>	<u>\$(282 369)</u>	<u>\$325 349</u>
			<u>\$219 732</u>

Acquisitions for the year amount to \$158 094 (2005: \$64 575).

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. FUTURE FRINGE BENEFITS**Pension plans**

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

The Office's contributions charged to the year-end statement amount to \$250 217 (2005: \$108 155). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	Sick leave		Vacation time	
	2006	2005	2006	2005
Opening balance	\$433 674	\$404 518	\$209 255	\$159 578
Fiscal year's expenses	141 694	137 041	271 674	255 448
Benefits paid during the year	28 823	(107 885)	(238 091)	(205 771)
Closing balance	<u>\$604 191</u>	<u>\$433 674</u>	<u>\$242 838</u>	<u>\$209 255</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 but not yet committed was created in order to allow the Ordre des sages-femmes du Québec to fulfil, during its first eight years of operations, all of its obligations under its incorporating legislation.

The Office must pay the Ordre des sages-femmes du Québec the sum established when the Fund was created, calculated by backward averaging.

The interest generated by the Fund is reinvested in it and management fees are paid to the Office from this interest.

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Change in the Fund for the fiscal year ended March 31, 2006:

	2006	2005
Opening balance	\$190 859	\$288 056
Payments to the Ordre des sages-femmes du Québec	(25 138)	(96 000)
Interest generated	3 954	3 510
Management fees paid to the Office	<u>(3 752)</u>	<u>(4 707)</u>
Fund balance	<u>\$165 923</u>	<u>\$190 859</u>

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. SUM OWING TO THE ORDRE DES SAGES-FEMMES DU QUÉBEC (cont'd)

The sum owing breaks down as follows:

	2006	2005
Sum owing	\$165 923	\$190 859
Less: Portion payable in the coming fiscal year	<u>165 923</u>	<u>96 000</u>
	<u><u> </u></u>	<u><u>\$94 859</u></u>

This sum owing is payable in the coming fiscal year because, in keeping with the Act respecting midwives, the Fund will be terminated on March 31, 2007.

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 either joint control or significant influence by it. The Office did not carry out business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. FINANCIAL INSTRUMENTS

The fair value of short-term assets and liabilities represents a reasonable estimate of their fair value given that they mature in the near future. The fair value of the amount owing to the Ordre des sages-femmes cannot be estimated, given the absence of markets for this type of debt.

Credit risk

The Office's exposure to credit risk corresponds to the book value of financial asset elements. The credit risk related to these is not concentrated in only one sector activity. The Office evaluates these assets on an ongoing basis and posts a provision for losses when the accounts are deemed impossible to recover.

OFFICE DES PROFESSIONS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Office des professions du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The Auditor General of Québec has audited the Office's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Gaétan Lemoyne
President

Christian Rény
Director, Management Consulting Services

Québec, May 29, 2006

AUDITOR'S REPORT

To The National Assembly

I have audited the balance sheet of the Office des professions du Québec as at March 31, 2006 and the activities and deficit statement for the year then ended. These financial statements are the responsibility of Office management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 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., chapter V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 29, 2006

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE
(R.S.Q., c. O-5.1)

ACTIVITIES AND EXPENSES
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
PROCEEDS		
Ministère des Relations internationales subsidy	\$2 000 000	\$2 000 000
Emploi-Québec subsidy	325 000	313 717
Secrétariat à la Jeunesse subsidy		20 000
Interest on bank deposits	29 188	21 157
Other revenue	<u>13 022</u>	<u>9 871</u>
	<u>2 367 210</u>	<u>2 364 745</u>
EXPENSES (Note 3)		
Programs and development	1 884 453	1 776 523
Communications	219 655	245 983
Administration	<u>290 474</u>	<u>324 922</u>
	<u>2 394 582</u>	<u>2 347 428</u>
EXCESS EXPENSES OVER PROCEEDS	(27 372)	17 317
SURPLUS, BEGINNING OF YEAR	<u>291 360</u>	<u>274 043</u>
SURPLUS, END OF YEAR	<u>\$263 988</u>	<u>\$291 360</u>

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$35 816	\$6 191
Term deposit, 3.45% maturing in January 2007	275 000	325 000
Accounts receivable (Note 4)	10 753	90 362
Prepaid expenses	1 700	1 700
	<u>\$321 569</u>	<u>\$423 253</u>
Fixed assets (Note 5)	<u>68 000</u>	<u>94 004</u>
	<u>\$389 569</u>	<u>\$517 257</u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 7)	\$125 581	\$225 897
SURPLUS	<u>263 988</u>	<u>291 360</u>
	<u>\$389 569</u>	<u>\$517 257</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

Patrick Préfontaine, Vice-President

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

CASH FLOW STATEMENT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess expenses over proceeds	\$(27 372)	\$17 317
Items not affecting liquid assets:		
Depreciation of fixed assets	34 911	55 736
Loss on disposal of intangible assets	<u> </u>	<u>101</u>
	 7 539	 73 154
Change in non-cash items linked to operations		
Accounts receivable	79 609	(3 032)
Prepaid expenses	1 700	24
Accounts payable	<u>(100 316)</u>	<u>(24 305)</u>
	 (19 007)	 (27 313)
Cash flows provided by operating activities	<u>(11 468)</u>	<u>45 841</u>
INVESTMENT ACTIVITIES		
Cash flows used for investment activities		
Acquisition of fixed assets	<u>(8 907)</u>	<u>(10 060)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(20 375)	35 781
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>331 191</u>	<u>295 410</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)	<u>\$310 816</u>	<u>\$331 191</u>

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Office was established under the Act respecting the Office Québec-Amériques pour la jeunesse, (R.S.Q., c. O-5.1). Its purpose is to develop relations between the youth of Québec and other American peoples, to increase the individual and group exchanges between them and to promote the development of cooperative networks.

Under the Québec Taxation Act and the Canadian Income Tax Act, the Office is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Short-term investments

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

Fixed assets

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

Office furniture and equipment	20%
Leasehold improvements	10%
Data processing equipment	33 1/3%

Program charges

Les charges de program are recorded when authorized and when the beneficiaries have met the eligibility criteria, where applicable.

Cash and cash equivalents

The Office's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

Pension plans

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

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. CHARGES

	2006		2005
Programs			
Regular projects	\$954 622		\$847 805
Salaries and fringe benefits	442 962		465 213
Participation allowances - Emploi-Québec	274 612		263 717
Special projects	58 103		74 776
	<u>1 730 299</u>		<u>1 651 511</u>
Development			
Mission abroad	45 164		36 699
Cost of travel within Québec	27 115		27 788
Development in Mexico	60 686		49 989
Other costs	21 189		10 536
	<u>154 154</u>		<u>125 012</u>
	1 884 453	79%	1 776 523 76%
Communications			
Salaries and fringe benefits	177 244		191 219
Promotional material	29 443		34 857
Advertising	9 741		16 584
Subscriptions and publications	3 227		3 323
	<u>219 655</u>	9%	245 983 10%
Administration			
Salaries and fringe benefits	131 395		149 666
Rent	67 341		63 125
Telecommunications	18 054		18 019
Operating costs	24 885		25 958
Mail and courier	5 148		4 583
Insurance	7 324		7 397
Board of administration expenses	1 416		337
Amortization of fixed assets	34 911		55 736
Loss on transfer of fixed assets			101
	<u>290 474</u>	12%	324 922 14%
	<u>\$2 394 582</u>		<u>\$2 347 428</u>

4. ACCOUNTS RECEIVABLE

	2006	2005
Emploi-Québec		\$86 217
Sales tax	\$1 423	1 459
Interest receivable	2 038	194
Other	7 292	2 492
	<u>\$10 753</u>	<u>\$90 362</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

5. FIXED ASSETS

	2006		2005
	Cost	Cumulated amortization	Net
Office furniture and equipment	\$79 307	\$75 371	\$12 153
Leasehold improvements	118 081	67 667	62 223
Data processing equipment	109 753	96 103	19 628
	<u>\$307 141</u>	<u>\$239 141</u>	<u>\$94 004</u>

6. BANK OVERDRAFT

At March 31, 2006, 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

	2006	2005
Ministère des Relations internationales		\$133 952
Suppliers	\$43 553	18 508
Salaries and at-source deductions	82 028	73 437
	<u>\$125 581</u>	<u>\$225 897</u>

8. FINANCIAL INSTRUMENTS

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

9. COMMITMENTS

The Office is committed under a long-term lease ending in fiscal 2011 for administrative offices.

The rental expenditures for the year ending March 31, 2006 total \$67 341. Minimum future payments are as follows:

2007	\$68 000
2008	72 500
2009	72 500
2010	72 500
2011	36 250
	<u>\$321 750</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

10. CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
Cash on hand	\$35 816	\$6 191
Term deposit	<u>275 000</u>	<u>325 000</u>
	<u>\$310 816</u>	<u>\$331 191</u>

11. RELATED PARTY TRANSACTIONS

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

12. FUTURE FRINGE BENEFITS**Pension plans**

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

The Office's contributions charged to the year-end statement amount to \$24 918 (2005: \$18 077). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

The Office reimburses days not used at March 31 every year in keeping with its regulation on the conditions of nomination, payment standards and pay scales. The charge for the fiscal year was \$18 926 (2005: \$19 560).

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**MANAGEMENT'S REPORT**

The financial statements of the Office Québec-Amériques pour la jeunesse were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies and methods that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

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

The Auditor General of Québec has audited the Office's financial statements in keeping with the auditing standards that are generally accepted in Canada. His report states the nature and scope of this audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Alfred Pilon
President and Chief Executive Officer P.I.

Québec, June 2, 2006

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, 2006, and the activities and expenses and cash flow statements for the year then ended. These financial statements are the responsibility of the Office's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2006 and the results of the insurance funds' operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the change in accounting policies disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 2, 2006

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC
(R.S.Q., c. R-5)

PROGRAM COSTS AND FINANCING
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
PROGRAM COSTS (Note 3)		
Medical services (Note 15)	3 410 161	3 394 144
Prescription drugs and pharmaceutical Services (Notes 4 and 15)	2 423 400	2 273 277
Hospital services (Note 5)	140 917	131 217
Technical aids	109 337	102 493
Dental services (Note 15)	104 795	108 719
Home-care services	42 080	42 840
Optometry services (Note 15)	35 448	34 349
Other (Note 6)	11 291	11 705
	<u>6 277 429</u>	<u>6 098 744</u>
Amounts recovered from liable third parties and from foreign nationals for hospital care	5 996	4 620
	<u>6 271 433</u>	<u>6 094 124</u>
Administrative expenses (Note 7)	<u>131 768</u>	<u>127 596</u>
	<u><u>6 403 201</u></u>	<u><u>6 221 720</u></u>
 FINANCING SOURCES		
Health Services Fund	3 542 714	3 534 903
Prescription Drug Insurance Fund	2 456 118	2 300 555
Gouvernement du Québec	284 754	270 648
Commission de la santé et de la sécurité du travail	77 891	74 030
Reciprocal agreements with other provinces (Note 5)	32 707	33 982
Other sources	9 017	7 602
	<u><u>6 403 201</u></u>	<u><u>6 221 720</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, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Current assets (Note 8)		
Cash	16 333	3 576
Contributions receivable		
Health Services Fund	55 385	214 152
Prescription Drug Insurance Fund	180 068	104 077
Fees to be recovered (Note 9)	141 338	107 544
Other receivables	13 218	11 210
	<u>406 342</u>	<u>440 559</u>
Fixed assets (Note 10)	23 778	23 229
Intangible assets (Note 11)	18 895	17 672
	<u>449 015</u>	<u>481 460</u>
LIABILITIES		
Current liabilities (Note 8)		
Outstanding bank papers	30 191	110 847
Services payable	362 260	318 442
Other accounts payable and accruals	27 292	15 601
Portion of long-term debt maturing within one year	500	500
	<u>419 743</u>	<u>445 390</u>
Provision for sick leave and vacation time (Note 13)	29 272	29 270
Long-term debt		6 800
	<u>449 015</u>	<u>481 460</u>
COMMITMENTS (Note 14)		
CONTINGENCIES (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Régie,
Pierre Roy, President and Chief Executive Officer
Jacques L'Espérance, Member of the Board of Directors

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Régie was established by the Act respecting the Régie de l'assurance maladie du Québec (R.S.Q., c. R-5) for the purpose of administering the health insurance plan and any other program entrusted to it by law or by the Government.

The Régie also administers the basic prescription drug insurance plan, as well of the parts of the programs of the Ministère de la Santé et des Services sociaux, including:

- the remuneration of resident physicians;
- the payment of hospital services rendered outside Québec;
- the tax exemption for home care services;
- the collection of amounts recoverable from liable third parties, residents of other provinces and foreign nationals for hospital care.

The Régie also pays for the professional services of physicians working under legislation administered by the Commission de la santé et de la sécurité du travail, which then reimburses the Régie.

The health insurance program 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, who do not have access to a group insurance plan or fringe benefits.

Finally, the Gouvernement du Québec finances the parts of programs entrusted to it by the Ministère de la Santé et des Services sociaux.

Under section 4 of its incorporating legislation, the Régie is an agent of the State and, as such, is not subject to Québec and Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Régie's cash flow during the year. However, the most relevant information is provided in the notes to the financial statements.

Fixed assets

Fixed assets are recorded at acquisition cost.

The straight-line amortization method is used, taking into account the residual value of these fixed assets, where applicable. Their service life has been established as follows:

Head office building	40 years
Building renovations	10 years
Office furniture and equipment and automotive equipment	5 years
Computer and office automation equipment	3 to 5 years

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(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 and professional services plus the related computer and office automation equipment.

The straight-line amortization method is used, taking into account the residual value of intangible assets, where applicable. Their service life has been established as follows:

Computer development	5 years
Software	3 years

Pension plans

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

Consequently, it applies the accounting procedure for defined-benefit plans to interenterprise government defined-benefit plans.

3. PROGRAM COSTS

The cost of goods and services, by program, breaks down as follows:

	2006	2005
Health insurance plan	3 541 719	3 530 221
Public basic prescription drug insurance plan (Note 4)	2 419 495	2 267 851
Other	310 219	296 052
	<u>6 271 433</u>	<u>6 094 124</u>

4. PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES

	2006	2005
Public prescription drug insurance plan		
Persons aged 65 and over	1 377 326	1 275 269
Employment-assistance recipients	543 930	520 234
Participants	498 239	472 348
	<u>2 419 495</u>	<u>2 267 851</u>
Persons eligible for special programs	3 905	5 426
	<u>2 423 400</u>	<u>2 273 277</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

5. HOSPITAL SERVICES

	<u>2006</u>	<u>2005</u>
Hospital services provided to Québec residents outside the province	108 210	97 235
Hospital services provided in Québec to residents of other provinces	<u>32 707</u>	<u>33 982</u>
	<u><u>140 917</u></u>	<u><u>131 217</u></u>

6. OTHER

	<u>2006</u>	<u>2005</u>
Research grants	9 720	9 081
Assistance to persons infected with the hepatitis C virus	<u>1 571</u>	<u>2 624</u>
	<u><u>11 291</u></u>	<u><u>11 705</u></u>

7. ADMINISTRATIVE EXPENSES

	<u>2006</u>	<u>2005</u>
Salaries and fringe benefits	85 474	85 142
Depreciation of fixed assets	5 995	5 580
Amortization of intangible assets	6 887	6 158
Office space, equipment and furniture	14 085	13 835
Information, telephone and messenger services	8 027	7 454
Interactive communications network	4 625	4 626
Professional and other services	3 986	2 356
Materials and supplies	2 155	1 870
Interest on long-term debt	<u>534</u>	<u>575</u>
	<u><u>131 768</u></u>	<u><u>127 596</u></u>

Part of the administrative expenses of \$36.6 M (2005: \$32.7 M) is assumed by the Prescription Drug Insurance Fund.

8. FINANCIAL INSTRUMENTS

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

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

9. COSTS TO BE RECOVERED

	2006	2005
Gouvernement du Québec	106 133	74 748
Commission de la santé et de la sécurité du travail	26 754	21 186
Hospital services owing from other provinces	8 451	11 610
	<u>141 338</u>	<u>107 544</u>

10. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Land	1 000		1 000	1 000
Head office building	17 537	10 137	7 400	7 700
Building renovations	11 018	1 650	9 368	7 291
Office furniture and equipment and automotive equipment	4 601	3 287	1 314	1 884
Computer and office automation equipment	17 135	12 439	4 696	5 354
	<u>51 291</u>	<u>27 513</u>	<u>23 778</u>	<u>23 229</u>

Acquisitions for the fiscal year necessitated expenditures of \$6.5 million (2005: \$8 million).

11. INTANGIBLE ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Computer development	38 736	21 332	17 404	15 997
Software	3 840	2 349	1 491	1 675
	<u>42 576</u>	<u>23 681</u>	<u>18 895</u>	<u>17 672</u>

Acquisitions for the fiscal year necessitated expenditures of \$8.1 million (2005: \$9.1 million).

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

12. RELATED PARTY TRANSACTIONS

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

13. FUTURE FRINGE BENEFITS**Pension plans**

Régie employees and salaried health care professionals participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are interemployer defined benefit plans and include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement amount to \$3.6 million (2005: \$2.9 million) for its employees and are included in administrative expenses. Contributions for salaried health care professionals amount to \$4.3 million (2005: \$3.5 million) and are included in the cost of programs under the items "medical services," "dental services" and "optometry services." The liability of the Régie towards these Government plans is restricted to its contributions for current service as an employer.

Sick leave and vacation time

	2006	2005
Opening balance	29 270	28 670
Net increase due to employees departures and arrivals	(572)	(43)
Expenditures	8 192	8 482
Utilization	(7 618)	(7 839)
Closing balance	<u>29 272</u>	<u>29 270</u>

14. COMMITMENTS

As at March 31, 2006 the minimum contractual commitments related to the acquisition of goods and services under procurement contracts and to the rental of office space are as follows:

2007	5 000
2008	2 143
2009	1 203
2010	<u>253</u>
	<u>8 599</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

15. CONTINGENCIES

Medical, dental and optometry services and prescription drugs and pharmaceutical services

The following agreements with associations representing health professionals have expired. No provision for liabilities was made for rate changes that might be made when they are renewed.

	<u>Expiry date</u>
Association des chirurgiens dentistes du Québec	June 30, 2003
Quebec Association of Optometrists	June 30, 2003
Association québécoise des pharmaciens propriétaires	June 30, 2003
Fédération des médecins omnipraticiens du Québec	March 31, 2004
Fédération des médecins spécialistes du Québec	March 31, 2004
Association des spécialistes en chirurgie buccale et maxillo-faciale du Québec	March 31, 2004

The annual agreements with the Fédération des médecins omnipraticiens du Québec, Fédération des médecins spécialistes du Québec and Association des spécialistes en chirurgie buccale et maxillo-faciale du Québec generally provided for an overall budget to be paid to their members for their services. The agreements specify that should this budget not be used, the amounts made available will be allocated for the purposes decided on by the parties, according to the terms and conditions they determine. Should the budget be exceeded, the amounts must be repaid in the subsequent period.

Since the respective agreements have not yet been signed, budgets have not been determined and the Régie cannot assess whether or not these budgets have been used or exceeded.

16. COMPARATIVE FIGURES

Certain figures for 2005 were reclassified to comply with the presentation adopted in 2006.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Régie de l'assurance maladie du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility includes choosing appropriate accounting policies that respect the accounting principles that are generally accepted in Canada. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Régie's financial position and operations.

The Board of Directors is responsible for examining and approving the financial statements and for overseeing the manner in which management performs its financial reporting duties. The Board of Directors is assisted in carrying out its mandate by the Audit Committee.

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

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

Pierre Roy
President and Chief Executive Officer

Daniel Cloutier, CA
Director, Budget and
Financial Resources

Québec, May 31, 2006

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, 2006 and the program costs and financing statement for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 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, May 31, 2006

RÉGIE DE L'ÉNERGIE
(R.S.Q., c. R-6.01)

REVENUES, EXPENSES AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Royalties - salaries and operations	\$8 009 954	\$7 578 904
Deferred contribution – fixed assets (Note 7)	86 211	92 975
Interest income	54 387	42 926
Fees and other	<u>8 137</u>	<u>36 880</u>
	<u>8 158 689</u>	<u>7 751 685</u>
EXPENSES		
Salaries and fringe benefits	6 110 053	6 043 417
Professional and administrative services	190 184	218 596
Rent to Société immobilière du Québec	1 145 924	978 252
Other operating expenses	659 601	696 120
Depreciation of fixed assets	79 536	92 975
Amortization of fixed assets held under capital lease contracts	72 121	72 121
Interest on long-term debt	53 418	60 577
Reimbursement of expenses - hearing	<u>(36 000)</u>	<u>36 000</u>
	<u>8 274 837</u>	<u>8 198 058</u>
INSUFFICIENT REVENUES OVER EXPENSES	(116 148)	(446 373)
SURPLUS, BEGINNING OF YEAR	<u>769 646</u>	<u>1 216 019</u>
SURPLUS, END OF YEAR	<u><u>\$653 498</u></u>	<u><u>\$769 646</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIEBALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$2 783 127	\$2 952 387
Accounts receivable	21 327	8 706
Prepaid expenses	39 581	41 356
	<u>2 844 035</u>	<u>3 002 449</u>
Fixed assets (Note 3)	<u>623 489</u>	<u>745 216</u>
	<u><u>\$3 467 524</u></u>	<u><u>\$3 747 665</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 4)	\$1 534 287	\$1 712 589
Short-term provision for sick leave (Note 5)	63 981	155 363
Current portion of long-term debt (Note 6)	86 055	86 611
	<u>1 684 323</u>	<u>1 954 563</u>
Long-term provision for sick leave (Note 5)	201 463	102 950
Long-term debt owing to Société immobilière du Québec (Note 6)	507 440	593 495
Deferred contribution – fixed assets (Note 7)	<u>420 800</u>	<u>327 011</u>
	<u>2 814 026</u>	<u>2 978 019</u>
SURPLUS	<u>653 498</u>	<u>769 646</u>
	<u><u>\$3 467 524</u></u>	<u><u>\$3 747 665</u></u>

The notes are an integral part of these financial statements.

On behalf of the Régie,
Jean-Paul Théorêt, President

RÉGIE DE L'ÉNERGIE**CASH FLOW STATEMENT**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Receipts - royalties - salaries and operations	\$8 008 788	\$7 575 653
Receipts - royalties and other revenue	(537)	36 567
Disbursements - salaries and fringe benefits	(6 050 460)	(5 918 530)
Disbursements - operations	(2 182 023)	(1 827 870)
Interest received	51 606	46 077
Interest paid	<u>(53 418)</u>	<u>(60 577)</u>
Cash flows (used for) provided by operating activities	<u>(226 044)</u>	<u>(148 680)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(36 605)	(168 962)
Proceeds from disposal of fixed assets	<u> </u>	<u>150</u>
Cash flows used for investment activities	<u>(36 605)</u>	<u>(168 812)</u>
FINANCING ACTIVITIES		
Reimbursements of long-term debt	(86 611)	(83 325)
Receipts – royalties from fixed assets	<u>180 000</u>	<u>200 000</u>
Cash flows provided by (used for) financing activities	<u>93 389</u>	<u>116 675</u>
DECREASE IN CASH	(169 260)	(200 817)
CASH, BEGINNING OF YEAR	<u>2 952 387</u>	<u>3 153 204</u>
CASH, END OF YEAR	<u>\$2 783 127</u>	<u>\$2 952 387</u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Régie is a quasi-judicial regulatory board established by the Act respecting the Régie de l'énergie (R.S.Q., c. R-6.01) and entrusted with decision-making, advisory and examination, superintending and investigative powers. Its authority and responsibilities cover, to varying degrees, all energy markets in Québec, i.e. electricity, natural gas, petroleum products and steam, and include activities related to supply, transport, distribution and storage.

The Régie must reconcile the public interest, consumer protection and fair treatment of electricity distributors and distributors.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Régie is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The Régie regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis according to their estimated service lives, namely:

Computer system and data processing equipment	3 years
Furniture and equipment	5 years
Leasehold improvements	5 to 15 years

Contribution reporting

Contributions are recorded according to the deferral method. Contributions for budgeted fixed asset expenditures are deferred and recognized as revenue over the same term as the depreciation of the fixed assets they are used to finance. Deferred contributions corresponding to cancelled fixed asset expenses are recognized as revenue when they are cancelled by the Régie.

Contributions for budgeted operating expenses and salaries approved by the Government are recorded as revenue in the year for which they are approved.

Pension plans

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

RÉGIE DE L'ÉNERGIENOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. FIXED ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net
Computer system and data processing equipment	\$759 776	\$719 981	\$39 795
Furniture and equipment	321 283	296 010	25 273
Leasehold improvements	208 824	85 424	123 400
	<u>1 289 883</u>	<u>1 101 415</u>	<u>188 468</u>
Fixed assets held under capital leases			
Leasehold improvements	1 029 352	594 331	435 021
	<u>\$2 319 235</u>	<u>\$1 695 746</u>	<u>\$623 489</u>
			<u>\$745 216</u>

4. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Accounts payable and accruals	\$196 801	\$427 565
Salaries and fringe benefits	872 454	815 104
Provision for vacation time	<u>465 032</u>	<u>469 920</u>
	<u>\$1 534 287</u>	<u>\$1 712 589</u>

5. FUTURE FRINGE BENEFITS**Provision for sick leave**

	2006	2005
Opening balance	\$258 313	\$201 287
Expenditure for the year	185 074	196 537
Benefits paid during the year	<u>(177 943)</u>	<u>(139 511)</u>
Closing balance	265 444	258 313
Short-term provision	<u>(63 981)</u>	<u>(155 363)</u>
Long-term provision	<u>\$201 463</u>	<u>\$102 950</u>

Pension Plans

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan for Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments upon retirement and death.

The Régie's contributions charged to the year-end expenditure, under the entry "Salaries and fringe benefits" amount to \$280 186 (2005: \$205 206). The Régie's liability towards this Government plan is restricted to its contributions as an employer.

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. LONG-TERM DEBT OWING TO SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

	<u>2006</u>	<u>2005</u>
Commitments under capital leases, from 7.8% to 9.3%, maturing en October 2010 and October 2012, repayable in monthly instalments of \$11 024	\$593 495	\$680 106
Short-term portion of the long-term debt	<u>(86 055)</u>	<u>(86 611)</u>
	<u>\$507 440</u>	<u>\$593 495</u>

The minimum payments required on commitments under capital leases are as follows:

2007	\$132 285
2008	132 285
2009	132 285
2010	132 285
2011	106 856
2012 and 2013	<u>112 820</u>
	748 816
Interest included in the minimum payments required	<u>(155 321)</u>
	<u>\$593 495</u>

7. DEFERRED CONTRIBUTION - IMMOBILISATIONS CORPORELLES

The item "Deferred contribution – fixed assets" represents contributions received in the form of royalties to finance the fixed assets expenditures included in the budget estimates approved by the Government. Discrepancies in the balance of these contributions for the fiscal year are as follows:

	<u>2006</u>	<u>2005</u>
Opening balance	\$327 011	\$219 986
Royalties – fixed assets	<u>180 000</u>	<u>200 000</u>
	507 011	419 986
Amortization of deferred contribution for the year	(79 536)	(92 975)
Deferred contribution – fixed assets	<u>(6 675)</u>	<u></u>
	<u>(86 211)</u>	<u>(92 975)</u>
Closing balance	<u>\$420 800</u>	<u>\$327 011</u>

Fixed assets acquired under capital lease contracts are not included in fixed asset expenditures and, therefore, are not included in the item "Deferred contribution – fixed assets".

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 \$4 760 097 (2005: \$3 493 327) and TransÉnergie in the amount of \$1 828 748 (2005: \$2 569 420). The Régie is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Régie did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. FINANCIAL INSTRUMENTS

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

At March 31, 2006, the fair value of the long-term debt of \$593 495 was \$660 489, given the discount rate of cash flows at the market rate by securities with similar maturity dates and interest rates.

10. COMPARATIVE FIGURES

Certain figures for 2005 were reclassified to comply with the presentation adopted for fiscal 2006.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2006

SEGMENTED INFORMATION

	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
Deferred contribution					
fixed 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
Depreciation of fixed assets	46 298	16 997	14 149	2 092	79 536
Amortization of fixed 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>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	57 083	55 526	(49 637)	(179 120)	(116 148)
SURPLUS (DEFICIT), BEGINNING OF YEAR	(801 236)	888 892	3 693	678 297	769 646
(DEFICIT) SURPLUS, END OF YEAR	<u>\$(744 153)</u>	<u>\$944 418</u>	<u>\$(45 944)</u>	<u>\$499 177</u>	<u>\$653 498</u>

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION
for the year ended March 31, 2006

SEGMENTED INFORMATION

	2005				
	Electricity distribution	transport	Natural gas	Petroleum products	Total
REVENUES					
Royalties					
Salaries and operations	\$3 491 235	\$2 511 820	\$1 392 963	\$182 886	\$7 578 904
Deferred contributions					
fixed assets	52 996	18 595	18 595	2 789	92 975
Interest income	24 279	8 753	8 478	1 416	42 926
Fess and other	23 985	5 954	5 977	964	36 880
	3 592 495	2 545 122	1 426 013	188 055	7 751 685
EXPENSES					
Salaries and fringe benefits	3 406 888	1 236 848	1 198 929	200 752	6 043 417
Professional services	139 767	32 888	38 129	7 812	218 596
Rent to Société					
immobilière du Québec	553 554	199 558	192 919	32 221	978 252
Other operating expenses	405 967	141 284	124 467	24 402	696 120
Depreciation of fixed assets	52 996	18 595	18 595	2 789	92 975
Amortization fixed assets held					
under capital lease contracts	40 792	14 705	14 244	2 380	72 121
Interest in the long-term debt	34 262	12 352	11 964	1 999	60 577
Reimbursement of expenses – hearing	36 000				36 000
	4 670 226	1 656 230	1 599 247	272 355	8 198 058
Excess (insufficient) revenues over expenses	(1 077 731)	888 892	(173 234)	(84 300)	(446 373)
SURPLUS (DEFICIT), BEGINNING OF YEAR					
	276 495		176 927	762 597	1 216 019
SURPLUS (DEFICIT), END OF YEAR					
	\$(801 236)	\$888 892	\$3 693	\$678 297	\$769 646

Note:

As of 2004-2005, sectorial information on the energy form “Electricity” is broken down between distribution and transport, due to the coming into effect of the new provisions of the *Regulation respecting the annual duty payable to the Régie de l'énergie* (Order-in-Council 736-2004, July 28, 2004).

RÉGIE DE L'ÉNERGIE**MANAGEMENT'S REPORT**

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

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The Auditor General of Québec has audited the Régie's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any element concerning his audit.

Jean-Paul Théorêt
President

Montréal, June 19, 2006

RÉGIE DE L'ÉNERGIE

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie de l'énergie as at March 31, 2006 and the revenues, expenses and surplus, cash flow and additional information statements for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2006 and the results of its operations and cash flow for the year then ended, in accordance with generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01) I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 19, 2006

RÉGIE DES INSTALLATIONS OLYMPIQUES

(R.S.Q., c. R-7)

REVENUE FUND**EARNINGS**

for the year ended October 31, 2005

(in thousands of dollars)

	2005	2004
REVENUES		
Gouvernement du Québec subsidy (Note 4)	20 000	20 792
Sports and tourist facilities and special events		
Entrance fees	4 756	4 452
Rent	1 279	1 609
Advertising	447	390
Parking	2 312	2 799
Souvenirs	640	666
Concession fees	1 071	1 177
Rental of commercial and office spaces	1 596	1 563
Recovery of cost of energy supplied to third parties	3 925	4 039
Work and services billed to third parties	1 326	931
Other	72	290
	<u>37 424</u>	<u>38 708</u>
EXPENSES		
Salaries		
Regular employees	8 602	8 469
Casual employees	2 634	2 418
Employee benefits	1 813	1 806
Pension fund contributions	434	326
Employment termination costs	151	271
Service contracts	5 174	4 518
Equipment rental and materials	1 523	1 417
Products for resale	331	341
Energy		
Supplied to third parties	3 132	3 165
Other	4 735	4 525
Water and service tax and insurance	2 380	2 578
Professional fees	1 648	931
Rights, commissions and fees	309	354
Financial expenses		
Interest on short-term debt	156	128
Interest on long-term debt	366	802
Stationery, printing, telecommunications	340	324
Advertising	854	896
Doubtful accounts	230	177
Other charges	304	347
Depreciation of fixed assets	3 717	3 614
Depreciation of deferred subsidy	(1 241)	(721)
	<u>37 592</u>	<u>36 686</u>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES		
BEFORE OTHER ITEMS	(168)	2 022
Other items		
Costs incurred as a result of the January 18, 1999 incident	429	358
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	<u>(597)</u>	<u>1 664</u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

REVENUE FUND
 OPERATING SURPLUS
 APPROPRIATED SURPLUS
 for the year ended October 31, 2005
 (in thousands of dollars)

	New product and market development	Installation maintenance program
OPENING SURPLUS		
Invested in fixed assets		
Allocated to reserved surpluses		
Transfer to operating surpluses		
Surplus (insufficient) revenues over expenses		
Balance available for investment		
Opening surplus	190	6
Fixed assets		
Acquired from surpluses		
Transfer to operating surpluses	(38)	(6)
Unamortized balance	152	
CLOSING SURPLUS	152	

The notes are an integral part of the financial statements.

2005					2004
Appropriated					
Project - new roof	Pool – synchronized swimming	Total	Operations	Total	Total
3 414		3 414	7 372	10 786	9 054
					17
	600	600	(600)		
(846)		(846)	846		
			(597)	(597)	1 664
2 568	600	3 168	7 021	10 189	10 735
		196		196	264
		(44)	44		(17)
		152	44	196	247
2 568	600	3 320	7 065	10 385	10 982

RÉGIE DES INSTALLATIONS OLYMPIQUES**REVENUE FUND****CASH FLOW**

for the year ended October 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Surplus (insufficient) revenues over expenses	(597)	1 664
Non-cash items		
Loss on disposal of fixed assets	7	
Depreciation of fixed assets	3 717	3 614
Depreciation of deferred subsidy	(1 241)	(721)
Changes in other assets and liabilities (Note 5)	<u>(785)</u>	<u>14 775</u>
Net cash generated	<u>1 101</u>	<u>19 332</u>
INVESTING ACTIVITIES		
Bank acceptances	8 477	505
Fixed assets	(6 805)	(12 449)
Disposal of fixed assets	<u>75</u>	
Net cash generated (used)	<u>1 747</u>	<u>(11 944)</u>
FINANCING ACTIVITIES		
Repayments of borrowings and net cash used	<u>(3 750)</u>	<u>(7 750)</u>
DECREASE IN CASH	(902)	(362)
CASH, BEGINNING OF YEAR	<u>1 282</u>	<u>1 644</u>
CASH, END OF YEAR	<u><u>380</u></u>	<u><u>1 282</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

REVENUE FUND

BALANCE SHEET
as at October 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	380	1 282
Bank acceptances, interest rate varying between 2.53% and 2.60%		8 477
Accounts receivable	2 855	2 030
Gouvernement du Québec subsidy receivable	10 000	
Inventory	1 042	944
Prepaid expenses	464	476
Fixed assets (Note 6)	<u>40 287</u>	<u>37 281</u>
	<u>55 028</u>	<u>50 490</u>
LIABILITIES		
Accounts and accruals	8 918	8 792
Deferred grants (Note 4 and Note 8)	28 225	19 466
Long-term debt (Note 9)	<u>7 500</u>	<u>11 250</u>
	<u>44 643</u>	<u>39 508</u>
SURPLUS		
Operating surplus	3 320	3 610
Appropriated surplus	<u>7 065</u>	<u>7 372</u>
	<u>10 385</u>	<u>10 982</u>
	<u><u>55 028</u></u>	<u><u>50 490</u></u>

The notes are an integral part of the financial statements.

On behalf of the Board,
Gilles Lépine, Director
Pasquale (Pat) Di Lillo, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES**CONSTRUCTION FUND****CASH FLOW**

for the year ended October 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
INVESTMENT ACTIVITIES		
Construction disbursements and net cash used	<u>(324)</u>	<u>(1 040)</u>
FINANCING ACTIVITIES		
Contributions received from the Special Olympic Fund	72 237	66 396
Net repayment of long-term loans	<u>(72 000)</u>	<u>(65 253)</u>
Net fund receipts	<u>237</u>	<u>1 143</u>
INCREASE (DECREASE) IN CASH	(87)	103
CASH (BANK OVERDRAFT), BEGINNING OF YEAR	<u>95</u>	<u>(8)</u>
CASH, END OF YEAR	<u>8</u>	<u>95</u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES**CONSTRUCTION FUND**

BALANCE SHEET
as at October 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Construction cost of the installations (Note 10)	1 476 541	1 476 175
Expenses to be assumed by the Special Olympic Fund (Note 11)	116 461	117 508
Contributions received (Note 12)	<u>(1 540 801)</u>	<u>(1 468 564)</u>
	52 201	125 119
Other assets		
Cash	<u>8</u>	<u>95</u>
	<u>52 209</u>	<u>125 214</u>
LIABILITIES		
Long-term debt (Note 9)	52 000	124 000
Accounts payable and accruals	205	163
Accrued interest	<u>4</u>	<u>1 051</u>
	<u>52 209</u>	<u>125 214</u>

The notes are an integral part of the financial statements.

On behalf of the Board,
Gilles Lépine, Director
Pasquale (Pat) Di Lillo, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS

as at October 31, 2005

(in thousands of dollars)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Régie des installations olympiques (the Régie) is a mandatory corporation of the Gouvernement du Québec, incorporated by legislation adopted by the Gouvernement du Québec, the Act respecting the Régie des installations olympiques.

The Régie is the owner of some movable and immovable installations provided for the Games of the 21st Olympiad and was mandated to complete the construction and layout of the aforesaid installations as well as to operate them.

The Régie's revenue must be used primarily for its operations. Any excess funds are to be used for the repayment of loans, advances or other obligations of the Régie concerning the completion of the Olympic installations. As soon as the above-mentioned loans and advances are paid and other obligations carried out, the Olympic installations will become the property of the City of Montréal.

The Régie's activities are divided into four primary areas: leasing of commercial premises, offices and sports facilities, production of events, tourism and social.

A significant portion of the Régie's operating budget derives from its social activities, including use of the sports facilities by the general public and for training for elite competitions.

Moreover, the Régie provides on-going support to organizations located in the Hochelaga-Maisonneuve area and East-end Montréal.

2. ASSOCIATED ORGANIZATION

The Special Olympic Fund was created by the Act to establish a Special Olympic Fund. This Fund was created to collect from the Minister of Revenue a portion of the special tax on tobacco, the proceeds from the sale of the fixed assets of the Régie's Construction Fund and, formerly, the net receipts reserved for Québec from Loto-Canada.

Managed by the Minister of Finance of Québec, this Special Fund is to be used solely to repay the Régie's loans and related interest and for the completion costs of the Olympic installations.

3. ACCOUNTING PRINCIPLES

a) The financial statements were prepared in accordance with the following accounting policies:

Accounting estimates

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Proceeds reporting

The Régie uses the deferred method to report subsidies. Using this method, subsidies assigned to expenses for future fiscal years are deferred and reported as proceeds in the fiscal year in which the related expenses are incurred. Unappropriated subsidies are reported as proceeds when received or receivable if the amount receivable can be reasonably estimated and its encashment is reasonably certain.

Proceeds from sports facilities, tourism and events, parking, souvenirs and concession royalties are reported once the goods have been delivered or the services dispensed.

Commercial premises and office rental are reported when the services are rendered and the rental agreement is signed by the client.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2005
(in thousands of dollars)

3. ACCOUNTING PRINCIPLES (cont'd)

a) The financial statements were prepared in accordance with the following accounting policies: (cont'd)

Proceeds reporting (cont'd)

Proceeds from energy cost recovery and work and services invoiced to third parties are reported as the services are rendered.

All of these proceeds are also reported when received or receivable if the amount receivable can be reasonably estimated and its encashment is reasonably certain.

Expenses charged from the Revenue Fund to the Construction Fund

Since 1997, the Régie has not charged any direct or indirect administrative expenses related to the completion of the installations to the Construction Fund.

Income taxes

Since the Régie is a mandatory corporation of the Gouvernement du Québec, it is not subject to income tax.

Taxes

The Régie is subject to the water and service tax but not to the property taxes levied by the City of Montréal.

Claims

The Régie records claims against third parties only upon receipt of payment.

Provisions have been made for the lawsuits and claims against the Régie for which the outcome is foreseeable.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Depreciation

Capital assets acquired for operating purposes are depreciated over their estimated service lives according to the straight-line method and the following annual rates and period:

Equipment	10%, 20% and 33.33%
Structure and specific improvements	5%, 6.67%, 10% and 20%
Leasehold improvements	Term of the Régie tenant's lease for spaces
Automotive equipment	6.67%, 15%, 20% and 26.33%

The deferred subsidy is amortized at the same rate as the fixed assets to which it is related.

RÉGIE DES INSTALLATIONS OLYMPIQUES**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at October 31, 2005

(in thousands of dollars)

3. ACCOUNTING PRINCIPLES (cont'd)

- b) The accounting rules used to draw up the financial statements differ significantly from the accounting principles that are generally recognized in Canada with regard to the following elements:

Construction cost of the installations

Excluding the land on which the Olympic installations are built, the cost includes construction, administrative and financing costs and all long-term debt issuing expenses incurred since the beginning. The cost of machinery and equipment used during the construction period has also been charged to the construction cost of the installations.

Disposal of assets

When installations accounted for in the Construction Fund are disposed of, their cost and the corresponding contributions are not written off; however, the proceeds from the disposal of fixed assets are remitted to the Special Olympic Fund in accordance with the legislation governing the Fund (see Note 10).

Contributions received

The Régie's policy is not to charge to its operating revenue the depreciation of the construction cost of the Olympic Park and Olympic Village installations, which is reduced by contributions received.

In addition to direct contributions received from associated organizations, contributions received include those received from the Special Olympic Fund for the repayment of debt and for the completion costs not financed by long-term loans.

Contributions received exclude interest on the long-term debt and on short-term loans and possible additional disbursements resulting from the fluctuation of exchange rates at the time of the repayment of debts in foreign currency which are assumed directly by the Special Olympic Fund.

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

The Régie was awarded a subsidy, determined using budgetary forecasts, as financial assistance to offset the deficit.

The Régie also obtained a subsidy receivable of \$10 000 000 to carry out the fixed assets plan (see Note 8).

5. INFORMATION INCLUDED IN THE CASH FLOW STATEMENT

The changes in other assets and liabilities are detailed as follows:

	2005	2004
Accounts receivable	(825)	6 204
Gouvernement du Québec subsidy receivable	(10 000)	
Inventory	(98)	143
Prepaid expenses	12	76
Accounts payable and accruals	126	(1 606)
Deferred grants	10 000	9 958
	<u>(785)</u>	<u>14 775</u>

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2005
(in thousands of dollars)

6. FIXED ASSETS

	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>
	2004		
	Cost	Accumulated depreciation	Net
Equipment	14 111	13 173	938
Structure and specific improvements	69 051	32 960	36 091
Leasehold improvements	5 994	5 993	1
Automotive equipment	1 988	1 737	251
	<u>91 144</u>	<u>53 863</u>	<u>37 281</u>

7. BANK LOAN

The Régie has a line of bank credit for an authorized maximum amount of \$15 000 000 bearing interest at the lender's base rate and renewable in February 2006.

8. DEFERRED SUBSIDIES

	2005	2004
Subsidy - Revenue Fund		
Opening balance	366	408
Amount cashed during fiscal year	<u>20 000</u>	<u>20 750</u>
	20 366	21 158
Amount recorded as proceeds	<u>20 000</u>	<u>20 792</u>
Closing balance	<u>366</u>	<u>366</u>
Subsidy - Fixed assets plan		
Opening balance	19 100	9 821
Amount cashed during fiscal year		10 000
Amount receivable	<u>10 000</u>	<u>19 821</u>
	29 100	
Amortization for fiscal year	<u>(1 241)</u>	<u>(721)</u>
Closing balance	<u>27 859</u>	<u>19 100</u>
	<u>28 225</u>	<u>19 466</u>

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2005
(in thousands of dollars)

9. LONG-TERM DEBT

	2005	2004
Revenue Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances, 4.152%, reimbursable in annual instalments of \$3 750 000, maturing in March 2007	7 500	11 2500

The instalments on long-term debt to be made by the Revenue Fund in the coming fiscal years total \$3 750 000 in 2006 and 2007.

	2005	2004
Construction Fund		
Promissory notes issued to the Financing Fund of the Ministère des Finances du Québec		
3.06857%, maturing on November 28, 2005 (a)	6 500	
3.10447%, maturing on December 19, 2005 (b)	6 500	
3.18382%, maturing on January 30, 2006	6 500	
3.25202%, maturing on February 27, 2006	6 500	
3.32079%, maturing on March 27, 2006	6 500	
3.38955%, maturing on April 24, 2006	6 500	
3.44639%, maturing on May 29, 2006	6 500	
3.47688%, maturing on June 19, 2006	6 500	
4.38%		50 000
2.55571%		74 000
	52 000	124 000

(a) Up to \$4 500 000 of this note was reimbursed and the remaining \$2 000 000 was refinanced at a rate of 3.2795%, maturing on January 30, 2006.

(b) Up to \$4 000 000 of this note was reimbursed and the remaining \$2 500 000 was refinanced at a rate of 3.52652%, maturing on March 27, 2006.

The instalment on the long-term debt of the Construction Fund over the coming fiscal year is \$52 000 000.

10. CONSTRUCTION COST OF THE INSTALLATIONS

	2005	2004
Installations used by the Régie Olympic Park		
Opening balance	1 204 327	1 203 243
Construction cost for the year		
New roof	333	1 084
Closing balance	1 204 660	1 204 327
Capitalized interest on long-term debt	16 160	16 160
Amounts carried forward	1 220 820	1 220 487

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2005
(in thousands of dollars)

10. CONSTRUCTION COST OF THE INSTALLATIONS (cont'd)

	2005	2004
Amounts brought forward	1 220 820	1 220 487
Installations disposed of		
Vélodrome (a)	82 804	82 804
Biodôme (a)	50 397	50 364
	133 201	133 168
Olympic Village (b)	122 520	122 520
	1 476 541	1 476 175

- (a) In 1994 and in accordance with the agreement signed with the City of Montréal, the Régie transferred ownership of the Biodôme to the City for no consideration. The cost relating to ownership of this property represents \$133 201 000, i.e. \$82 804 000 relating to the Vélodrome and \$50 397 000 relating to the Biodôme (see Note 3).
- (b) The Olympic Village was sold on April 14, 1998 to a private enterprise further to a call for tenders. The accounting treatment of the disposal of the Village is consistent with the accounting policy for the disposal of assets set out in Note 3.

11. EXPENSES TO BE ASSUMED BY THE SPECIAL OLYMPIC FUND

	2005	2004
Interest paid on loan refinancing	19 486	19 486
Accrued interest on loans	4	1 051
Deferred exchange loss on long-term debt in US dollars	96 971	96 971
	116 461	117 508

12. CONTRIBUTIONS RECEIVED

	2005	2004
Special Olympic Fund	1 278 790	1 206 553
Olympic Games Organizing Committee	191 362	191 362
City of Montréal	70 649	70 649
	1 540 801	1 468 564

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, accounts payable, Gouvernement du Québec subsidy receivable, accounts receivable and accruals are financial instruments whose fair value is close to their book, given that they mature in the near future.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at October 31, 2005
(in thousands of dollars)

13. FINANCIAL INSTRUMENTS (cont'd)**Long-term debt**

The fair value of the Construction Fund's long-term debt equals the book value, given that most of the borrowings mature in the next fiscal year.

The fair value of the Revenue Fund's long-term debt is approximately \$7 464 000 (\$11 180 000 in 2004). To establish this fair value, the Régie capitalized future cash flows envisaged under the rate agreement of which the Régie might avail itself on the date of the financial statements for a borrowing involving similar conditions and deadline.

14. CONTINGENCIES

Lawsuits and claims have been instituted by or against the Régie.

As at October 31, 2005, unsettled lawsuits and claims pending against the Régie total approximately \$21 800 000 (\$22 900 000 in 2004).

Of this amount, claims totalling \$20 200 000 (\$20 200 000 in 2004) have been submitted to our insurance companies concerning the incident that occurred on January 18, 1999. It is currently impossible to determine the financial impact that may arise from this incident.

Based on an analysis of claims for which the outcome is foreseeable, an assessment appears to indicate that the provisions recorded are sufficient for all such lawsuits and claims.

RÉGIE DES INSTALLATIONS OLYMPIQUES**AUDITORS' REPORT**

To the Minister responsible for the
Régie des installations olympiques

We have audited the balance sheets of the Revenue Fund and the Construction Fund of the Régie des installations olympiques as at October 31, 2005 and the statements of earnings, appropriated surplus and operating surplus of the Revenue Fund and cash flows of the Revenue Fund and the Construction Fund for the year then ended. These financial statements were drawn up in keeping with the Act respecting the Régie des installations olympiques and the Act to establish a Special Olympic Fund. These financial statements are the responsibility of Régie management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at October 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles described in Note 3. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

These financial statements, which were not drawn up, and need not be drawn up, in keeping with the accounting principles generally recognized in Canada, are supplied solely for information purposes and for use by the Minister responsible for the Régie des installations olympiques. These financial statements were not designed for use, and should not be used, by persons other than specifically defined users determined or for purposes other than those for which they were drawn up.

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

Montréal, December 21, 2005

RÉGIE DES RENTES DU QUÉBEC

(R.S.Q., c. R-9, c. R-15.1, c. P-19.1)

QUÉBEC PENSION PLAN FUND**REVENUES, EXPENSES AND NET ASSETS**

for the year ended March 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Contributions to the Québec Pension Plan	8 881 768	8 460 971
Investment income - net (Note 6)	4 342 253	2 215 591
Other revenue	<u>2 093</u>	<u>2 037</u>
	<u>13 226 114</u>	<u>10 678 599</u>
EXPENSES		
Pensions and benefits paid		
Retirement benefits	5 686 575	5 383 433
Surviving spouse's benefits	1 427 293	1 393 202
Disability pensions	689 922	671 789
Orphans' pensions	16 407	16 357
Pensions to the children of disabled contributors	9 516	9 490
Death benefits	<u>89 909</u>	<u>90 678</u>
	7 919 622	7 564 949
Reimbursement of social aid benefits to the		
Ministère de l'Emploi et de la Solidarité sociale	<u>3 249</u>	<u>3 504</u>
	7 922 871	7 568 453
Administrative expenses (Note 7)	<u>87 527</u>	<u>86 904</u>
	<u>8 010 398</u>	<u>7 655 357</u>
SURPLUS REVENUES OVER EXPENSES	5 215 716	3 023 242
NET ASSETS OF THE PLAN, BEGINNING OF YEAR	<u>23 264 757</u>	<u>20 241 515</u>
NET ASSETS OF THE PLAN, END OF YEAR	<u><u>28 480 473</u></u>	<u><u>23 264 757</u></u>

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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Amount receivable from the other funds administered by the Régie des rentes du Québec	242	
Amounts entrusted to the Caisse de dépôt et placement du Québec (Note 8)	29 128 592	23 599 601
Contributions receivable from Revenu Québec	86 698	1 009
Accounts receivable	23 577	21 903
Fixed assets (Note 9)	<u>34 785</u>	<u>34 475</u>
	<u>29 273 894</u>	<u>23 656 988</u>
LIABILITIES		
Outstanding cheques less cash on hand (Note 10)	47 466	45 325
Advances from the Caisse de dépôt et placement du Québec (Note 10)	590 865	195 109
Accounts payable	132 365	125 704
Owed to the other funds administered by the Régie des rentes du Québec		4 028
Provision for vacation time and sick leave (Note 13)	<u>22 725</u>	<u>22 065</u>
	793 421	392 231
NET ASSETS OF THE QUÉBEC PENSION PLAN (Note 2)	<u>28 480 473</u>	<u>23 264 757</u>
	<u>29 273 894</u>	<u>23 656 988</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Pierre Prémont, President and General Manager
Marcel Côté, Director

RÉGIE DES RENTES DU QUÉBEC**QUÉBEC PENSION PLAN FUND****CASH FLOW**

for the year ended March 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Surplus revenues over expenditure	5 215 716	3 023 242
Non-cash items:		
Increase in the fair value of participation deposits	(2 850 840)	(1 115 606)
Loss on disposal of fixed assets	1	144
Depreciation of fixed assets	9 309	8 268
Amortization of fixed assets attributed to other funds	2 141	1 863
	<u>2 376 327</u>	<u>1 917 911</u>
Net variation in non-cash items linked to operating activities	<u>(45 457)</u>	<u>117 769</u>
Cash receipts linked to operating activities	<u>2 330 870</u>	<u>2 035 680</u>
CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS		
Proceeds from the sale of fixed assets	14	17
Disbursements related to the acquisition of fixed assets	<u>(11 775)</u>	<u>(14 895)</u>
Net disbursements linked to investment activities involving fixed assets	<u>(11 761)</u>	<u>(14 878)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Disbursements related to the acquisition of participation deposits	<u>(2 717 006)</u>	<u>(2 435 003)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(397 897)</u>	<u>(414 201)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(240 434)</u>	<u>173 767</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>(638 331)</u></u>	<u><u>(240 434)</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND****REVENUES, EXPENSES AND FUND BALANCE**

for the year ended March 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Fees	6 337	6 269
Guardianships and liquidation	270	8
Other	<u>76</u>	<u>48</u>
	6 683	6 325
Yield attributed by the Québec Pension Plan Fund (Note 4)	<u>1 218</u>	<u>596</u>
	<u>7 901</u>	<u>6 921</u>
EXPENSES		
Administrative expenses (Note 4)		
Salaries and fringe benefits	4 413	3 836
Mail and communications	178	85
Travelling expenses	51	36
Professional and technical services	675	264
Building maintenance and rental	235	210
Computer maintenance and rental	100	109
Supplies	24	22
Other expenses	9	24
Bad debts	7	2
Depreciation of the fixed assets allocated by the Québec Pension Plan Fund	180	276
Depreciation of the fixed assets of the Fund	95	229
Professional fees related to tutorship and winding-up of plans	<u>349</u>	<u> </u>
	<u>6 316</u>	<u>5 093</u>
SURPLUS REVENUES OVER EXPENSES	1 585	1 828
OPENING FUND BALANCE	<u>6 999</u>	<u>5 171</u>
CLOSING FUND BALANCE	<u>8 584</u>	<u>6 999</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	9 258	7 172
Accounts receivable	161	114
Owed by the Quebec Pension Plan Fund		396
Fixed assets (Note 9)	<u>161</u>	<u>202</u>
	<u>9 580</u>	<u>7 884</u>
 LIABILITIES		
Owed to the Québec Pension Plan Fund	93	
Provision for vacation time, sick leave and other (Note 13)	<u>903</u>	<u>885</u>
	996	885
 FUND BALANCE	<u>8 584</u>	<u>6 999</u>
	<u>9 580</u>	<u>7 884</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Pierre Prémont, President and General Manager
Marcel Côté, Director

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**

CASH FLOW
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Surplus revenues over expenses	1 585	1 828
Non-cash item:		
Amortization of fund's fixed assets	<u>95</u>	<u>229</u>
	1 680	2 057
Net variation in non-cash items linked to operating activities	<u>460</u>	<u>(3)</u>
Net receipts linked to operating activities	<u>2 140</u>	<u>2 054</u>
CASH FLOWS LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS		
Disbursements related to the acquisition of fixed assets	<u>(54)</u>	<u>(78)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2 086	1 976
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7 172</u>	<u>5 196</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>9 258</u></u>	<u><u>7 172</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**

REVENUES AND EXPENSES
for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Gouvernement du Québec contribution	27 030	25 355
Other revenue	4	
	<u>27 034</u>	<u>25 355</u>
EXPENSES		
Financial expenses (Note 4)		
Salaries and fringe benefits	14 594	14 204
Mail and communications	1 838	2 536
Travelling expenses	184	162
Professional and technical services	2 938	1 274
Outside expert medical opinions	10	10
Building maintenance and rental	1 219	1 352
Computer maintenance and rental	741	729
Supplies	110	318
Other expenses	39	86
Participation in the financing of the Tribunal administratif du Québec	212	212
Depreciation of the fixed assets allocated by the Québec Pension Plan	1 961	1 587
Depreciation of the fund's fixed assets	2 814	2 450
	<u>26 660</u>	<u>24 920</u>
Financial expenses		
Interest on short-term note payable	79	36
Interest on long-term note payable	293	357
Other interest charges	2	42
	<u>374</u>	<u>435</u>
	<u>27 034</u>	<u>25 355</u>
SURPLUS REVENUES OVER EXPENSES	<u>0</u>	<u>0</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, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Gouvernement du Québec receivable	919	
Québec Pension Plan Fund receivable		3 632
Fixed assets (Note 9)	<u>11 783</u>	<u>10 662</u>
	<u>12 702</u>	<u>14 294</u>
 LIABILITIES		
Québec Pension Plan Fund payable	149	
Accrued expenses	70	179
Gouvernement du Québec payable		2 513
Provision for vacation time, sick leave and other (Note 13)	1 020	944
Notes payable (Note 11)	<u>11 463</u>	<u>10 658</u>
	<u>12 702</u>	<u>14 294</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Pierre Prémont, President and General Manager
Marcel Côté, Director

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT****CASH FLOW**

for the year ended March 31, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Surplus revenues over expenses		
Non-cash items:		
Amortization of fund's fixed assets	2 814	2 450
	<u>2 814</u>	<u>2 450</u>
Net variation in non-cash items linked to operating activities	316	(585)
	<u>316</u>	<u>(585)</u>
Net receipts linked to operating activities	3 130	1 865
	<u>3 130</u>	<u>1 865</u>
CASH FLOWS LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS		
Fund withdrawals related to the acquisition and fixed asset investment activities	(3 935)	(2 624)
	<u>(3 935)</u>	<u>(2 624)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Receipts from notes payable	2 733	2 549
Reimbursement of notes payable	(1 928)	(1 790)
	<u>(1 928)</u>	<u>(1 790)</u>
Net receipts linked to financing activities	805	759
	<u>805</u>	<u>759</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u> </u>	<u> </u>
OPENING AND CLOSING CASH AND CASH EQUIVALENTS (Note 14)	<u> </u>	<u> </u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(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). The Régie administers the Québec Pension Plan Act (R.S.Q., c. R-9), the Supplemental Pension Plans Act (R.S.Q., c. R-15.1) and the measure involving payment of the refundable child support tax credit provided for in the Act following up on the Budget Speech of March 30, 2004 (R.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.

1) QUÉBEC PENSION PLAN

The Act respecting the Québec Pension Plan entered into force on January 1, 1966. The Québec Pension Plan is a compulsory program designed to provide workers and their dependants with basic protection against loss of income due to retirement, disability or death.

Funding and net assets of the Québec Pension Plan Fund

The Québec Pension Plan is financed out of contributions shared equally between employees and employers. Self-employed workers must pay both contributions.

The Plan uses the so-called partial funding financing method in which the year's contributions are used to pay current benefits and constitute a reserve allowing the Plan's financing to be stabilized in a context of population aging and to protect the Plan from economic fluctuations. The net assets of the Québec Pension Plan Fund represent a reserve of funds available for the payment of pensions and benefits, the reimbursement of social aid benefits and the Plan's administrative expenses. These net assets do not cover the actuarial present value of pensions and benefits accrued and payable. At March 31, 2006, the Régie's net assets were \$28.5 billion (2005: \$23.3 billion), or 3.6 times the amount of the pensions and benefits paid out in fiscal 2005-2006.

According to the last actuarial analysis, at December 31, 2003, based on the premium rate set at 9.9% since 2003, the Plan will be able to pay pensions and benefits, the Plan's administrative expenses and reimburse the Ministère de l'Emploi et de la Solidarité sociale for social aid benefits owing throughout the projection period, i.e. until 2055. However, the reserve (net Plan assets) should be less than twice the annual fund outflows as of 2048. Since actuarial analyses are carried out every three years, the next one will report on the Plan's situation at December 31, 2006.

To measure the Plan's long-term financing stability, we can also refer to the concept of "equilibrium premium rate". This is the contribution rate applicable to future years required to maintain a steady long-term ratio between the reserve and the annual fund outflows. The equilibrium rate is an indicator of an ideal situation for Plan financing. This "tolerance zone" is estimated at 0.3 percentage points by the Régie's head actuary. Further, given that many contextual factors can cause the equilibrium rate to vary from one actuarial analysis to another, the latter is of the opinion that it is necessary to record a gap exceeding the tolerance zone for two actuarial analyses before modifying the Plan.

According to actuarial analysis assumptions for 2003, this equilibrium rate is 10.3%, a difference of 0.4 compared to the premium rate of 9.9 % set by the Act. This difference, which exceeds the tolerance zone by 0.3 points, was posted for the first time in an actuarial analysis.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)**1) QUÉBEC PENSION PLAN (cont'd)****Funding and net assets of the Québec Pension Plan Fund (cont'd)**

If the equilibrium rate were applied immediately, the reserve would be higher and generate sufficient investment income to offset the shortfall that appears when conditions are inferior to disbursements. It would then grow at the same rate as disbursements, maintaining the ratio between the reserve and annual disbursements stable.

At least every six years, a public consultation must be held to study the application of the Act respecting the Québec Pension Plan and the desirability of modifying both the benefits and the contribution rate. 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 the age of 65. For new beneficiaries, at March 31, 2006, the maximum monthly pension payable at the age of 65 was \$844.58.

Surviving spouse's benefits

In the event of death, the surviving spouse is entitled to a pension determined according to the amount contributed to the Plan by the deceased during at least one-third of the contributory period (minimum of three years; maximum of ten years). The amount of this pension varies mainly according to the surviving spouse's age and the pensionable earnings and contributions of the deceased. For new beneficiaries, at March 31, 2006, the maximum monthly pension payable to a surviving spouse was \$716.31.

Disability pension

A disability pension is payable to any disabled contributor subject to the provisions of the Act respecting the Québec Pension Plan. The amount of the pension varies according to the gains and contributions of the disabled person. For new beneficiaries, at March 31, 2006, the maximum monthly pension payable to a disabled contributor was \$1 031.02.

Benefits - pensions payable to the children of disabled contributors and to orphans

For new beneficiaries, at March 31, 2006, the amount of monthly benefits payable to each dependent child or orphan of a disabled or deceased contributor was \$63.65.

Death benefits

Death benefits are payable first to the person who paid the funeral expenses, provided that person applies for the benefits within 60 days following the contributor's death. After 60 days, the benefit is payable to qualified applicants within the meaning of the Act respecting the Québec Pension Plan. The amount of this benefit was set at \$2 500 in January 1998 pour for all contributors meeting Plan requirements.

Benefit indexation

Pensions are indexed annually to the average Canadian consumer price index. On January 1, 2006, the rate of indexation was 2.3%.

RÉGIE DES RENTES DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(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 new refundable child support tax credit replaced the family benefits program. Persons with dependent children under age 18 receive an amount which varies according to family type (single-parent or two-parent), number of eligible children and family income the previous year. A supplement is also paid for eligible handicapped children.

The Régie deals with customer relations and payment of child support measures.

3. ACCOUNTING POLICIES

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

Fixed assets

Fixed assets are shown at acquisition cost. Assets such as "computer systems development" comprise capitalized costs for direct labour, interest and other costs linked directly to systems development up to the start-up date.

Fixed assets are amortized according to the straight-line method based on their probable service life:

Office furniture and equipment	5 to 7 years
Data processing equipment and software	3 to 7 years
Automotive equipment	3 years
Computer systems development	5 to 7 years

Leasehold improvements are amortized according to the straight-line method over the remaining term of the lease.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans. Only the Régie's contributions are charged to the fiscal year's results according to the contribution rates determined for regular service. The Régie's obligations towards these government plans are restricted to its contributions as an employer.

Amounts entrusted to the Caisse de dépôt et placement du Québec

Demand deposits are recorded at acquisition cost. Participation deposits are recorded at 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.

Contributions to the Plan

Revenu Québec collects the contributions for the Régie and regularly pays them to the latter. These amounts are provisional and subject to verification and correction. These contributions are recorded according to the best estimate at the fiscal year end. Where applicable, adjustments are posted to the fiscal year in which they are known.

Net investment income

The Régie records interest and penalties earned when notices of assessment are issued by Revenu Québec. These amounts represent best estimates. They are provisional and subject to correction. Where applicable, adjustments are posted to the fiscal year in which they are known.

4. ADMINISTRATIVE EXPENSE SHARING AND ATTRIBUTION OF YIELD BETWEEN THE VARIOUS FUNDS ADMINISTERED BY THE RÉGIE DES RENTES DU QUÉBEC

The means used to divide administrative costs among the various funds administered by the Régie des rentes du Québec is established by attributing the direct costs for each fund to that fund and distributing indirect costs based on the efforts the Régie planned to devote to each fund 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.

5. EXPENSES RELATED TO CONTRIBUTION COLLECTION BY REVENU QUÉBEC

According to the Act respecting the Québec Pension Plan, Revenu Québec is the agency mandated to collect the contributions to the Plan. In the context of this mandate, the Department invoices the Régie for administrative expenses and other expenses it incurs for accounts receivable. These expenses have been determined by Order-in-Council based on the expenses actually incurred by Revenu Québec. The evaluation is carried out every five years. For the fiscal year ended March 31, 2006, the administrative expenses totalled \$13 803 000 (2005: \$13 559 000). Between two evaluations, expenses are indexed based on the various indices.

In fiscal 2005-2006, Revenu Québec carried out the various evaluations planned. The result of these analyses is that Revenu Québec was justified in suspending invoicing of the expenses inherent in accounts receivable since the beginning of fiscal 2003-2004. The new rate will apply as of the next fiscal year and will include expenses inherent in accounts receivable.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

6. INVESTMENT INCOME OF THE QUÉBEC PENSION PLAN FUND

	2006	2005
Revenues		
Régie des rentes deposits in the Caisse de dépôt et placement du Québec		
Revenue from participation deposits	1 015 532	837 361
Other interest	2 444	3 834
	<u>1 017 976</u>	<u>841 195</u>
Interest and penalty earnings on the issue of contribution notices	32 790	16 661
Interest on bank deposits	<u>19</u>	<u>52</u>
	<u>1 050 785</u>	<u>857 908</u>
Expenses		
Interest on advances from the Caisse de dépôt et placement du Québec	(3 896)	(1 186)
Interest on pensions and benefits	(970)	(1 039)
Yield attributed to the Supplemental Pension Plans Monitoring Fund (Note 4)	(1 218)	(596)
Interest on bank overdraft	(2)	(4)
Exchange losses	(32)	
Other interest	<u>(19)</u>	
	<u>(6 137)</u>	<u>(2 825)</u>
	<u>1 044 648</u>	<u>855 083</u>
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	2 850 840	1 115 606
Net gains on sale of investments	<u>446 765</u>	<u>244 902</u>
	<u>3 297 605</u>	<u>1 360 508</u>
	<u><u>4 342 253</u></u>	<u><u>2 215 591</u></u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

7. ADMINISTRATIVE EXPENSES OF THE QUÉBEC PENSION PLAN FUND

	2006	2005
Salaries and fringe benefits	41 855	45 076
Mail and communications	3 785	3 882
Travelling expenses	763	624
Professional and technical services	7 002	3 900
Outside expert medical opinions	1 718	1 716
Building maintenance and rental	3 784	3 600
Computer maintenance and leasing	2 092	2 554
Supplies	697	572
Other expenses	98	198
Expenses related to collection of contributions by Revenu Québec (Note 5)	13 803	13 559
Participation in the financing of the Tribunal administratif du Québec	1 713	1 556
Overpaid pension and benefits	709	1 304
Bad debts	199	95
Depreciation of fixed assets	9 309	8 268
	<u>87 527</u>	<u>86 904</u>

**8. QUÉBEC PENSION PLAN SPECIAL FUND AMOUNTS ENTRUSTED TO THE
CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

	2006	2005
Régie des rentes special fund deposits with the Caisse de dépôt et placement du Québec		
Participation deposits	29 022 539	23 454 693
Investment income receivable	106 053	144 908
	<u>29 128 592</u>	<u>23 599 601</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 pending advance 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, 2006, the Régie owned 28 617 497 participation units (2005: 25 768 928).

	2006	2005
Cost of units	<u>24 020 316</u>	<u>21 303 310</u>

The audited financial statements of the amounts the Québec Pension Plan entrusted to the Caisse de dépôt et placement du Québec at December 31, 2005 are available to the public and contain more details on the investments held.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

9. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Québec Pension Plan Fund			
Office furniture and equipment	5 090	4 332	758
Data processing equipment and software	27 641	22 816	4 825
Automotive equipment	61	61	20
Leasehold improvements	4 502	2 756	1 746
Computer systems development	87 010	59 554	27 456
	<u>124 304</u>	<u>89 519</u>	<u>34 785</u>
Supplemental Pension Plans Monitoring Fund			
Computer systems development	<u>1 809</u>	<u>1 648</u>	<u>161</u>
Refundable Child Support Tax Credit Administration Fund			
Office furniture and equipment	48	48	
Computer hardware and software	166	166	
Computer systems development	<u>33 576</u>	<u>21 793</u>	<u>11 783</u>
	<u>33 790</u>	<u>22 007</u>	<u>11 783</u>

Acquisitions for the year are:

	Acquisitions before interest	Capitalized interest	Total acquisitions
Québec Pension Plan Fund	11 775		11 775
Supplemental Pension Plans Monitoring Fund	54		54
Refundable Child Support Tax Credit Administration Fund	3 882	53	3 935

Fixed assets with a net book value of \$15 067 were disposed of during the fiscal year in the Québec Pension Plan Fund. The proceeds from the sale totalled \$14 067.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

10. 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, 2006, the Régie had an unguaranteed credit line of \$50 millions renewable annually on September 1, 2006. Amounts used bear interest at the prime rate.

11. NOTES PAYABLE

	<u>2006</u>	<u>2005</u>
Refundable Child Support Tax Credit Administration Fund		
Short-term borrowing	6 496	3 763
Long-term borrowing	<u>4 967</u>	<u>6 895</u>
	<u>11 463</u>	<u>10 658</u>

Short-term borrowing

The borrowing on note from the Financing Fund of the Gouvernement du Québec at 3.87% will mature on May 1, 2006. It was contracted to fund to develop of the Refundable Child Support Tax Credit Administration Fund's computer systems, with the Régie acting as the Government's agent.

Long-term borrowing

The long-term borrowing on a Gouvernement du Québec Financing Fund note bears interest at 3a rate of .83% until June 1, 2008.

Payments of principal on the long-term borrowing for the next five years are as follows:

2007	2 141 515
2008	2 246 749
2009	578 607
2010	
2011	

Gouvernement du Québec guarantee

To guarantee the payment of principal and interest, the Minister of Famille, des Aînés et de la Condition féminine is authorized by the Government, after ensuring that the funds concerned cannot legally discharge their obligations, to pay the Régie the required sums.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS**Other assets and liabilities**

The fair value of cash, demand deposits, contributions receivable or repayable, accounts receivable, amounts owed by the Québec Pension Plan Fund or to the other funds, amount owed by the Gouvernement du Québec, outstanding cheques, Caisse de dépôt et placement du Québec advances, accounts payable, accrued liabilities and the short-term bill payable are equal to their book value given that they mature in the near future.

Long-term borrowing

At March 31, 2006, the fair value of the Refundable Child Support Tax Credit Administration Fund long-term borrowing was \$5 037 131, given the capitalization of cash flows at the market value for similar fixed-rate securities.

13. FRINGE BENEFITS**Pension plans**

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

The Régie's contributions charged to the year-end statement, based on the contribution rates set for regular service, amount to \$2 689 167 (2005: \$2 078 737). The Régie's liability towards these government plans is restricted to its contributions as an employer.

Provision for vacation time, sick leave and other

	<u>2006</u>	<u>2005</u>
Québec Pension Plan Fund		
Opening balance	22 065	21 292
Expenditures	7 796	7 516
Utilisation	<u>(7 136)</u>	<u>(6 743)</u>
Closing balance	<u><u>22 725</u></u>	<u><u>22 065</u></u>
Supplemental Pension Plans Monitoring Fund		
Opening balance	885	987
Expenditures	318	206
Utilisation	<u>(300)</u>	<u>(308)</u>
Closing balance	<u><u>903</u></u>	<u><u>885</u></u>
Refundable Child Support Tax Credit Administration Fund		
Opening balance	944	896
Expenditures	466	442
Utilisation	<u>(390)</u>	<u>(394)</u>
Closing balance	<u><u>1 020</u></u>	<u><u>944</u></u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006
 (in thousands of dollars)

14. CASH FLOW

The cash and cash equivalents shown in the cash flow statement include the following financial statement items:

	<u>2006</u>	<u>2005</u>
Québec Pension Plan Fund		
Outstanding cheques minus cash	(47 466)	(45 325)
Advances from the Caisse de dépôt et placement du Québec	<u>(590 865)</u>	<u>(195 109)</u>
	<u>(638 331)</u>	<u>(240 434)</u>
 Supplemental Pension Plans Monitoring Fund		
Cash	<u>9 258</u>	<u>7 172</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, des Aînés et de la Condition féminine 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>2006</u>	<u>2005</u>
Québec Pension Plan Fund	<u>5 263</u>	<u>2 566</u>
Refundable Child Support Tax Credit Administration Fund	<u>454</u>	<u>210</u>

15. CONTRACTUAL COMMITMENTS

The Régie had already signed contracts for fiscal 2007 and following in the amount of \$42 722 500 with various suppliers, including \$100 000 for Refundable Child Support Tax Credit Administration Fund computer systems development projects.

16. COMPARATIVE FIGURES

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

RÉGIE DES RENTES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the funds administered by the Régie des rentes du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal auditing bureau 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 financial statements of the Québec Pension Plan Fund. 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 oversees 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 are not management. The committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Pierre Prémont, MBA, Ph D., CA
President-CEO

Claude Lantier, CA
Director, Financial and Material
Resources

Québec, May 10, 2006

RÉGIE DES RENTES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the financial statement of the Québec Pension Plan Fund as at March 31, 2006 and the revenues, expenses and net assets and cash flow statements 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, 2006; the revenues, expenses and fund balance and cash flow statements for the Supplemental Pension Plans Monitoring Fund and the cash flow statement for the Refundable Child Support Tax Credit Administration Fund for the fiscal year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present, in all material respects, the financial position of the Régie's funds as at March 31, 2006 and their revenues, expenditure and cash flow for the fiscal year then ended in keeping with the accounting principles that are generally recognized in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 10, 2006

RÉGIE DU BÂTIMENT DU QUÉBEC
(R.S.Q., c. B-1.1)

RESULTS AND SURPLUS
For the 4-month period ended March 31, 2006

	<u>2006</u>
REVENUES	
Inspection	\$8 008 450
Qualification	<u>7 260 987</u>
	<u>15 269 437</u>
EXPENSES	
Salaries and fringe benefits	7 712 164
Transportation and communications	930 225
Professional and administrative services	1 801 147
Rent, maintenance and repairs	1 096 541
Material and supplies	173 767
Amortization of fixed assets	330 677
Amortization of intangible assets	240 361
Doubtful debts	<u>20 180</u>
	<u>12 305 062</u>
SURPLUS REVENUES OVER EXPENSES AND SURPLUS AT END OF YEAR	<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, 2006

	<u>2006</u>
ASSETS	
Current assets	
Cash on hand	\$166 493
Accounts receivable (Note 4)	4 522 036
Advance to the Consolidated Revenue Fund	
without encashment terms, bearing interest at the prime rate	1 596 425
Gouvernement du Québec receivable (Note 5)	3 897 957
Prepaid expenses	<u>132 977</u>
	10 315 888
Gouvernement du Québec receivable (Note 5)	3 557 646
Fixed assets (Note 6)	1 122 188
Intangible assets (Note 7)	<u>7 148 726</u>
	<u>\$22 144 448</u>
LIABILITIES	
Current liabilities	
Accounts receivable and accruals (Note 9)	\$3 723 476
Vacation compensation owed to employees	<u>2 544 132</u>
	6 267 608
Long-term debt (Note 10)	7 946 242
Provision for sick leave (Note 11)	<u>4 966 223</u>
	19 180 073
SURPLUS	<u>2 964 375</u>
	<u>\$22 144 448</u>
COMMITMENTS (Note 12)	
CONTINGENCIES (Note 13)	
SUBSEQUENT EVENTS (Note 14)	

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 QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Régie du bâtiment du Québec (the Board), 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 Board performs the duties listed in section 111 of the Building Act (R.S.Q., c. B-1.1). In addition, the Board oversees four other statutes and their regulations in different technical sectors. These statutes are 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 the 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 Board into an independent agency financed out of a separate budget. The Board became a legal person and agency of the Gouvernement du Québec, funding its activities from its revenues.

Under section 88 of its incorporating legislation, the Board is an agent of the State and, as such, is not subject to Québec or Canadian income taxes.

2. TRANSFER OF ASSETS AND LIABILITIES

Following the legislative amendments to its incorporating legislation, the following assets and liabilities were transferred to the Board at December 1, 2005, given its new status as an independent agency.

These assets and liabilities were transferred at net book value and break down as follows:

	<u>2006</u>
ASSETS	
Accounts receivable	\$3 858 726
Fixed assets	1 239 850
Intangible assets	6 706 392
Gouvernement du Québec receivable	<u>7 455 603</u>
	<u>\$19 260 571</u>
LIABILITIES	
Accounts payables and accruals	\$776 175
Vacation compensation owed to employees	2 273 435
Provision for sick leave	5 182 168
Owed to the Gouvernement du Québec	<u>11 028 793</u>
	<u>\$19 260 571</u>

3. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates. The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

RÉGIE DU BÂTIMENT DU QUÉBECNOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006**3. ACCOUNTING POLICIES (cont'd)****Fixed assets**

Fixed assets are recorded at cost and amortized over their estimated service life using 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 fixed assets transferred when the Board became an independent agency are amortized based on their remaining service life at the time of the transfer.

The Board regularly examines the book value of its fixed assets, comparing their value to those of unactualized future cash flows expected to be generated by the asset. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

Intangible assets

The intangible asset, i.e. computer development, is recorded at cost and amortized over its estimated service life using the straight-line method over a duration of 5 years. It undergoes a depreciation test when changes in the situation indicate that its book value might not be recoverable. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

The computer development transferred when the Board became an independent agency is amortized over the remaining service life at the time of the transfer.

Revenues 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 were known.

Pension plans

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

4. ACCOUNTS PAYABLE

	2006
Inspection	\$4 374 400
Qualification	238 880
Gouvernement du Québec	509 575
Employees	7 881
Other	39 235
	<u>5 169 971</u>
Provision for doubtful debts	<u>(647 935)</u>
	<u>\$4 522 036</u>

RÉGIE DU BÂTIMENT DU QUÉBECNOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006**5. GOUVERNEMENT DU QUÉBEC RECEIVABLE**

The Gouvernement du Québec receivable for the value of banks of sick time and vacation leave transferred at December 1, 2005 does not bear interest. The repayment terms are as follows:

	2006
2007	\$3 897 957
2008	736 356
2009	736 356
2010	736 356
2011	736 357
2012	612 221
	<u>7 455 603</u>
Short-term portion	<u>(3 897 957)</u>
	<u><u>\$3 557 646</u></u>

6. FIXED ASSETS

	2006		
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$260 872	\$28 990	\$231 882
Furniture and equipment	61 657	3 845	57 812
Computer equipment	1 130 336	297 842	832 494
	\$1 452 865	\$330 677	\$1 122 188

During the fiscal year, fixed assets of \$213 015 were acquired, \$178 912 of which is included in the item "Accounts payables and accruals".

7. INTANGIBLE ASSETS

	2006		
	Cost	Accumulated depreciation	Net
Computer development	\$7 389 087	\$240 361	\$7 148 726

During the fiscal year, computer development was carried out for \$682 695, \$55 433 of which is included in the item "Accounts payable and accruals".

Computer development in the amount of \$6 142 616 was not amortized since the development work had not been completed and systems were not yet operational at fiscal year end.

8. SHORT-TERM BORROWING

The Board has an authorized credit line of a maximum of \$5 000 000 with the Gouvernement du Québec expiring on March 31, 2011. At March 31, 2006, none of this amount had been used. Sums withdrawn bear interest at the National Bank of Canada's prime rate and are payable June 30 and December 31 each year. At March 31, 2006, the prime rate was 5.50%.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006

9. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2006</u>
Suppliers and accrued expenses	\$2 655 235
Ministère du Travail	<u>1 068 241</u>
	<u>\$3 723 476</u>

10. LONG-TERM DEBT

After the Régie du bâtiment du Québec was converted to an independent agency with separate funding on December 1, 2005, fixed assets and the intangible asset whose net book value totalled \$7 946 242 were transferred to it. In consideration, the Board 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.

	<u>2006</u>
Amount owed to the Gouvernement du Québec, interest-free, repayable in annual instalments spread over the service life of the assets transferred	<u>\$7 946 242</u>

Under the agreement with the government, the amounts of capital payments payable over the coming years cannot be established since the assets transferred included an intangible asset of \$5 459 922 for which the development work had not been completed. The amounts can only be established specifically once it becomes operational.

11. FUTURE FRINGE BENEFITS**Pension plans**

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

The Board's contributions posted to operations for the fiscal year totalled \$302 639. Its liability towards these Government plans is restricted to its contributions as an employer.

Provision for sick leave

	<u>2006</u>
Opening balance	\$5 182 168
Expenses for the year	247 728
Benefits paid during the year	<u>(463 673)</u>
Closing balance	<u>\$4 966 223</u>

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006

12. COMMITMENTS

Under service agreements with the Ministère de l'Emploi et de la Solidarité sociale and the Centre de services partagés du Québec, the Board is committed to disbursing \$5 232 675 by March 31, 2007 for administrative support and computer-related services.

Moreover, the Board is committed, under a contract targeting the modernization of its business processes and systems, to pay a supplier a maximum of \$5 903 242 by March 31, 2007 or any other later date, as specified in the contract between the parties. It has also made commitments to certain suppliers of professional services for \$716 970 to be disbursed by March 31, 2007.

13. CONTINGENCIES

The Board is one of the parties involved in a \$3-million lawsuit against the Attorney General of Québec. The Board must also act as a guarantor in proceedings for damages and interest totalling \$1.6 million and instituted by a third party. When these financial statements were prepared the Board was unable to determine the outcome of this dispute.

14. SUBSEQUENT EVENTS

Under Order-in-Council 377-2006, dated May 10, 2006, the Board is authorized to set up a borrowing plan to a maximum of \$15 000 000 from the date of this order-in-council to September 30, 2007.

15. RELATED PARTY TRANSACTIONS

An amount of \$1 068 241 representing the administrative support services supplied by the Ministère du Travail is included in expenses for professional services and is presented under "Accounts payable and accruals".

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

16. FINANCIAL INSTRUMENTS

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 amount owed to and receivable from the Gouvernement du Québec cannot be estimated given the absence of a market for this type of instrument.

RÉGIE DU BÂTIMENT DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Régie du bâtiment du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors 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 Board's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Daniel Gilbert
President-CEO

Michel Gagnon
Vice-President, Finances and Administration

Québec, August 31, 2006

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, 2006, the results, surplus and cash flow statements for the 4-month period then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Board's financial position as at March 31, 2006 and the results of its operations and cash flows for the 4-month period then ended, in accordance with the accounting principles that are generally accepted in Canada.

Renaud Lachance, CA
Auditor General of Québec

Québec, August 31, 2006

RÉGIE DU CINÉMA
(R.S.Q., c. C-18.1)

RESULTS AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Examination fees:		
Film classification requests	\$1 376 055	\$1 252 280
Licence applications	101 444	79 212
Licences	1 285 080	1 047 796
Monitoring of video material	11 999 438	11 352 735
Interests	871 884	443 092
Other	420	243
	<u>15 634 321</u>	<u>14 175 358</u>
 EXPENSES		
Salaries and fringe benefits	2 855 288	2 659 785
Rent	451 173	433 893
Printing services	183 733	234 038
Transportation and communication	262 953	160 581
Amortization of fixed assets	59 090	66 003
Amortization of intangible assets	59 677	76 010
Professional and administrative services	344 760	109 808
Materials and supplies	80 462	67 228
Maintenance and repairs	40 326	47 429
	<u>4 337 462</u>	<u>3 854 775</u>
 EXCESS REVENUES OVER EXPENSES	11 296 859	10 320 583
 SURPLUS, BEGINNING OF YEAR	<u>33 789 213</u>	<u>23 468 630</u>
 SURPLUS, END OF YEAR	<u><u>\$45 086 072</u></u>	<u><u>\$33 789 213</u></u>

The notes are an integral part of the financial statements.

RÉGIE DU CINÉMABALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$45 584 217	\$34 518 350
Accounts receivable and accrued interest	574 625	303 474
Gouvernement du Québec receivable	<u>51 010</u>	<u>51 010</u>
	46 158 842	34 872 834
Fixed assets (Note 3)	258 856	127 616
Intangible assets (Note 4)	<u>112 442</u>	<u>172 119</u>
	<u>\$46 530 140</u>	<u>\$35 172 569</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$307 271	\$208 228
Provision for vacation time	295 325	293 494
Owing to the Gouvernement du Québec	290	289
Revenues collected in advance	<u>427 315</u>	<u>503 990</u>
	1 030 201	1 006 001
Provision for sick leave (Note 5)	<u>413 867</u>	<u>377 355</u>
	1 444 068	1 383 356
SURPLUS (Note 6)	<u>45 086 072</u>	<u>33 789 213</u>
	<u>\$46 530 140</u>	<u>\$35 172 569</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 FINANCIAL STATEMENTS
March 31, 2006**1. CONSTITUTION AND PURPOSE**

The Régie du cinéma is a body established by the Cinema Act (R.S.Q., c. C-18.1). Its functions are:

- to classify films;
- to publish regularly, by such means as it considers appropriate, information on the films classified;
- to periodically hold consultations on the classification of films;
- to issue, renew, suspend or revoke exhibitors' or distributors' licences;
- to supervise and monitor the sale, leasing, lending or exchange of video material, and to issue filing certificates;
- to supervise the administration of the chapter on cinema control and supervision and the regulations made under it and to inquire into its operation and how it is being complied with.

Under the Income Tax Act (R.S.C. 1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. I-3), the Régie is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Revenue recording

Revenues are recorded when the services are rendered or won, 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.

Fixed assets

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

Office furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	10 years

The Régie regularly examines the book value of its fixed assets, comparing their book value with the unrealized future cash flows that should be generated by them. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

RÉGIE DU CINÉMANOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006**2. ACCOUNTING POLICIES (cont'd)****Intangible assets**

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

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 excess in 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 interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$47 002	\$14 911	\$32 091
Computer equipment	164 358	80 229	84 129
Leasehold improvements	142 636		142 636
	<u>\$353 996</u>	<u>\$95 140</u>	<u>\$258 856</u>
			<u>\$127 616</u>

The acquisition of fixed assets for the fiscal year totalled \$190 331 (2005: \$67 990).

4. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Computer development	<u>\$247 606</u>	<u>\$135 164</u>	<u>\$112 442</u>
			<u>\$172 119</u>

During the fiscal year, was no acquisition or disposal of tangible assets (2005: \$79 566).

5. FUTURE FRINGE BENEFITS**Pension plans**

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

The Régie's contributions posted to operations for the fiscal year totalled \$120 004 (2005: \$91 545). The Régie's liability towards these Government plans is restricted to its contributions as an employer.

RÉGIE DU CINÉMANOTES TO FINANCIAL STATEMENT (cont'd)
March 31, 2006**5. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

	2006	2005
Opening balance	\$377 355	\$419 575
Expenses for the year	102 223	11 750
Benefits paid during the year	(65 711)	(53 970)
Closing balance	<u>\$413 867</u>	<u>\$377 355</u>

6. SURPLUS

As stipulated in section 144.3 of the Act respecting the cinema (R.S.Q., c. C-18.1), the amounts received by the Régie must be used to pay its obligations. Any surplus is paid into the Consolidated Revenue Fund on the dates and in the amounts determined by the Government.

7. COMMITMENTS

The Régie is committed, under long-term contracts ending on various dates up to September 30, 2010 for administrative services, photocopier rental and label purchases.

Minimum future payments are as follows:

2007	\$107 335
2008	5 045
2009	2 880
2010	2 880
2011	<u>916</u>
	<u>\$119 056</u>

8. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Régie must assess its different job categories. On the date the financial statements were prepared, the Régie 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.

9. RELATED PARTY TRANSACTIONS

The Régie has entered into an exchange of service agreement with the Ministère de la Culture et des Communications. Under this agreement, the Régie is mandated to inspect accredited bookstores in Québec and, in exchange, the Department agrees to provide the Régie with all services under its jurisdiction in the fields of human resource management. This exchange is not reflected in the financial statements.

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

10. FINANCIAL INSTRUMENTS

The book value of short-term financial instruments represents a reasonable estimate of their fair value, given that they mature in the short term.

11. COMPARATIVE FIGURES

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

RÉGIE DU CINÉMA

MANAGEMENT'S REPORT

The financial statements of the Régie du cinéma were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out periodic audits to ensure that the Régie's internal monitoring is adequate, ongoing and applied uniformly.

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

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

Jean Lebel
President

Jean-Pierre Gagnon
Director, Administration

Montréal, June 29, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie du cinéma as at March 31, 2006 and the results and surplus statement for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 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 accounting principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 29, 2006

SERVICES QUÉBEC
(R.S.Q., c. S-6.3)

RESULT AND ACCUMULATED SURPLUS
for the 11-month period ended March 31, 2006

	2006 (11 months)
REVENUES	
Management fees	
Ministère des Services gouvernementaux	\$24 011 973
Other related parties under common control	304 513
Gouvernement du Québec – Compensatory reimbursement for pay equity	289 400
	<u>24 605 886</u>
EXPENSES	
Salaries and fringe benefices	13 254 998
Salaries and fringe benefits related to pay equity	289 400
Services de transport et de communication	1 557 978
Professional and administrative services	7 116 194
Maintenance and repairs	269 105
Rent	1 500 284
Material and supplies	291 872
Interest on long-term debt	3 037
Amortization of fixed assets	311 535
Loss on devaluation of fixed assets	11 483
	<u>24 605 886</u>
SURPLUS OF REVENUES OVER EXPENSES AND ACCUMULATED SURPLUS AT THE END	<u><u> </u></u>

The notes are an integral part of the financial statements.

SERVICES QUÉBECBALANCE SHEET
March 31, 2006

	<u>2006</u>
ASSETS	
Current assets	
Accounts receivable (Note 4)	\$20 521 076
Prepaid expenses	62 892
Deferred expenses	147 806
Gouvernement du Québec receivable (Note 5)	<u>2 220 433</u>
	22 952 207
Gouvernement du Québec receivable (Note 5)	2 067 213
Fixed assets (Note 6)	944 237
Intangible assets (Note 7)	<u>97 940</u>
	<u><u>\$26 061 597</u></u>
LIABILITIES	
Current liabilities	
Ministère des Finances advances, interest-free, no repayment terms	\$17 200 084
Accounts payable and accruals (Note 8)	2 975 772
Provision for vacation time	1 787 581
Instalments on the long-term debt (Note 10)	<u>155 116</u>
	22 118 553
Long-term debt (Note 10)	445 002
Provision for sick leave (Note 12)	<u>3 498 042</u>
	26 061 597
ACCUMULATED SURPLUS	
	<u><u>\$26 061 597</u></u>
COMMITMENTS (Note 13)	

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Jean Leclerc
Francine Martel-Vaillancourt

SERVICES QUÉBEC**CASH FLOW**

for the 11-month period ended March 31, 2006

	2006 (11 months)
OPERATING ACTIVITIES	
Surplus revenues over expenses	
Elements not affecting cash in hand:	
Amortization of fixed assets	\$311 535
Loss on devaluation of fixed assets	11 483
	<u>323 018</u>
Increase in non-cash elements linked to operations:	
Accounts receivable	(20 521 076)
Prepaid expenses	(62 892)
Deferred expenses	(147 806)
Accounts payable and accruals	2 231 628
Provision for vacation time	485 912
Provision for sick leave	512 065
	<u>... (17 502 169) ...</u>
Cash flows used for operating activities	<u>(17 179 151)</u>
INVESTMENT ACTIVITIES	
Cash flows used for investment activities:	
Acquisition of intangible assets	<u>(8 010)</u>
FINANCING ACTIVITIES	
Increase in Ministère des Finances advances	17 200 084
Repayment of the long-term debt	<u>(12 923)</u>
Cash flows provided by financing activities	<u>17 187 161</u>
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u> </u>

The notes are an integral part of the financial statements.

SERVICES QUÉBECNOTES TO FINANCIAL STATEMENTS
March 31, 2006**1. CONSTITUTION AND PURPOSE**

Services Québec, a legal person within the meaning of the Civil Code, 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.

Its mission is to offer citizens and businesses throughout Québec, a single window for simplified 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 sums it receives.

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

2. TRANSFER OF ASSETS AND LIABILITIES

Once it had been created, on May 2, 2005, Services Québec assumed responsibilities formerly assigned to the Ministère des Services gouvernementaux (MSG). To carry out its activities, employees mainly from the MSG were seconded to it along with certain assets and liabilities transferred to it on this date.

These assets and liabilities were transferred at net book value and break down as follows:

	<u>2006</u>
ASSETS	
Fixed assets	\$398 729
Gouvernement du Québec receivable	<u>4 287 646</u>
	<u>\$4 686 375</u>
LIABILITIES	
Accounts payable and accruals	\$398 729
Provision for vacation time	1 301 669
Provision for sick leave (Note 12)	<u>2 985 977</u>
	<u>\$4 686 375</u>

3. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

SERVICES QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. ACCOUNTING POLICIES (cont'd)****Fixed assets**

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

Leasehold improvements	5 years
Data processing equipment	3 years
Office equipment	5 years

Services Québec regularly examines the book value of its fixed assets, comparing it with unactualized future cash flows that should be generated by the asset. Any surplus of the book value over the fair value is posted to results for the period it which the depreciation was determined.

Intangible assets

Intangible assets, comprising software and other developments, are reported at cost and amortized over their estimated service life using the straight-line method and the following durations:

Software	5 years
Other developments	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 being developed are amortized when completed and operating.

Proceeds reporting

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

Services received free of charge

The cost of certain salaries and fringe benefits and support services, paid from the appropriations of various government departments, are not presented in the financial statements.

Pension plans

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

4. ACCOUNTS RECEIVABLE

	2006
Ministère des Services gouvernementaux	\$19 927 163
Secrétariat du Conseil du trésor - équité salariale	289 400
Centre de services partagés du Québec	210 000
Other related parties under common control	94 513
	<u>\$20 521 076</u>

SERVICES QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. GOUVERNEMENT DU QUÉBEC RECEIVABLE**

The Gouvernement du Québec receivable for provisions for sick leaved and vacation time at May 2, 2005 does not bear interest. Repayment terms are as follows:

	2006
2007	\$2 220 433
2008	437 295
2009	437 295
2010	437 294
2011	437 294
2012	318 035
	<u>4 287 646</u>
Less: Short-term portion	<u>2 220 433</u>
	<u><u>\$2 067 213</u></u>

6. FIXED ASSETS

	2006	
	Cost	Accumulated depreciation
Leasehold improvements	\$187 709	\$15 717
Data processing equipment	633 384	263 834
Office equipment	434 679	31 984
	<u>\$1 255 772</u>	<u>\$311 535</u>
		<u><u>\$944 237</u></u>

Fixed assets classified under the items "Leasehold improvements", "Data processing equipment" and "Office equipment" representing \$3 773, \$254 190 and \$125 332 respectively are not amortized since they were operational at the end of the fiscal year.

7. INTANGIBLE ASSETS

	2006	
	Cost	Accumulated depreciation
Software	\$24 030	
Other developments	73 910	
	<u>\$97 940</u>	<u>\$97 940</u>

Intangible assets are not amortized since they were in progress at the end of the fiscal year.

SERVICES QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**8. ACCOUNTS PAYABLE AND ACCRUALS**

	<u>2006</u>
Suppliers and accrued expenses	\$1 623 047
Salaries and fringe benefits	474 938
Ministère des Services gouvernementaux	398 729
Other related parties under common control	<u>479 058</u>
	<u>\$2 975 772</u>

9. OWING TO THE CONSOLIDATED REVENUE FUND

Under Order-in-Council 222-2006, dated March 29, 2006, the Gouvernement du Québec authorized one or more advances up to a maximum of \$6 000 000. These advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2011. At March 31, 2006, this interest rate was 5.50% and no advance had been made.

10. LONG-TERM DEBT

	<u>2006</u>
Borrowing of \$104 537 from the Société immobilière du Québec, at a fixed rate of 4.69%, repayable in monthly payments of \$1 950, maturing on July 31, 2010	\$91 614
Borrowing from the Ministère des Services gouvernementaux, interest-free, repayable at the rate the amortization of assets requires	<u>508 504</u>
	600 118
Less: Portion maturing within one year	<u>155 116</u>
	<u><u>\$445 002</u></u>

The amount of capital payments to be made over the next five fiscal years breaks down as follows:

2007	\$155 116
2008	156 052
2009	157 032
2010	73 330
2011	58 588

11. 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 results and accumulated surplus statement and break down as follows:

SERVICES QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**11. PORTAL (cont'd)**

	<u>2006</u>
REVENUES	
Management fees - Ministère des Services gouvernementaux	<u>\$6 387 285</u>
EXPENSES	
Portal development	
Salaries and fringe benefits	427 907
Professional and administrative services	4635 405
Portal operation	
Professional and administrative services	<u>1 323 973</u>
	<u>6 387 285</u>
SURPLUS REVENUES AND EXPENSES	<u><u> </u></u>

12. FUTURE FRINGE BENEFITS

The staff members of Services Québec participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Service Québec's contributions charged to the year-end statement amount to \$486 816. The Service Québec's liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave

	<u>2006</u>
Balance at the beginning following a transfer (Note 2)	\$2 985 977
Expenses for the year	910 265
Benefits paid during the year	<u>(398 200)</u>
Closing balance	<u>\$3 498 042</u>

13. COMMITMENTS**Operating-lease contracts**

Commitments for operating-lease contracts pertain primarily to the rental of photocopiers and breaks down as follows:

2007	\$30 068
2008	27 077
2009	25 078
2010	17 962
2011	6 768

SERVICES QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

13. COMMITMENTS (cont'd)**Professional services contracts**

Commitments for professional services contracts total \$4 434 741 for the coming fiscal year and \$83 515 for the following one.

14. CASH FLOWS

During the fiscal year, fixed assets and intangible assets were acquired for amounts representing \$539 131 and \$73 910 respectively in consideration of equivalent long-term debts.

At March 31, 2006, the item "Payables and accrued expenses" included acquisitions of fixed assets and intangible assets representing 728 124 and \$16 020 respectively.

15. 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 either 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.

16. FINANCIAL INSTRUMENTS**Fair value**

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

SERVICES QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Services Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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 an auditing committee whose members are not 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 the Service Québec's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Francine Martel-Vaillancourt
President-CEO

Andrée Blanchet
Vice-President, Corporate Services
and Development

Québec, November 17, 2006

SERVICES QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of Services Québec as at March 31, 2006 and the results and accumulated surplus and cash flow statements for the 11-month period then ended. These financial statements are the responsibility of Services Québec management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Services Québec's financial position as at March 31, 2006 and the results of its operations and its cash flows for the 11-month period then ended, in accordance with the accounting principles that are generally accepted in Canada.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 17, 2006

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
(R.S.Q., c. D-8.2)

REVENUES AND DEFICIT
for the year ended December 31, 2005

	2005	2004
REVENUES (Note 3)		
Service delivery (Note 4)	\$10 743 320	\$11 719 207
Sales	4 752 838	4 774 569
Rent	1 485 156	1 414 111
Management income	1 113 308	1 046 690
(Loss) gain on disposal of investment	(46 741)	284 243
Investment income	257 376	167 236
Income from commitments	17 000	179 000
Other income	87 657	94 021
	<u>18 409 914</u>	<u>19 679 077</u>
EXPENSES (Note 3)		
Services to contractors	7 503 237	8 393 393
Salaries and fringe benefits	3 812 066	3 748 896
Purchases	2 372 871	2 254 326
Maintenance and repairs	997 275	897 457
Electricity	640 151	662 823
Taxes, licences and permits	768 656	639 784
Rental costs	183 953	177 539
Staff-related expenses	144 386	172 272
Insurance	269 208	369 540
Communications	178 951	184 191
Advertising	69 891	154 551
Office expenses	45 460	56 603
Road equipment	611 829	631 391
Doubtful accounts (accounts recovered)	278 410	(11 976)
Depreciation of capital assets	263 248	329 217
Professional fees	238 617	347 096
Studies and market development	54 443	117 122
Other expenditures	117 592	350 381
Gain on disposal of capital assets	(15 030)	(419)
Interest and bank charges	106 503	74 318
Interest on long-term debt	41 374	44 110
	<u>18 683 091</u>	<u>19 592 615</u>
OPERATING (LOSS) EARNINGS	(273 177)	86 462
Lasting net depreciation on investments (Note 8)	(3 558 554)	(3 000 000)
Share in results of satellite corporation	(57 627)	(85 813)
NET LOSS (Note 3)	(3 889 358)	(2 999 351)
DEFICIT, BEGINNING OF YEAR	(63 707 408)	(60 708 057)
DEFICIT, END OF YEAR	<u><u>\$(67 596 766)</u></u>	<u><u>\$(63 707 408)</u></u>

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESBALANCE SHEET
as at December 31, 2005

	2005	2004
ASSETS		
Current assets		
Cash on hand	\$474 670	\$308 378
Accounts receivable (Note 5)	4 051 198	4 386 452
Inventories (Note 6)	206 915	223 862
Prepaid expenses	19 562	13 298
	<u>4 752 345</u>	<u>4 931 990</u>
Assets intended for sale (Note 7)	1 515 860	1 513 060
Investments (Note 8)	4 894 227	9 520 279
Capital assets (Note 9)	890 416	1 086 495
Assets in the form of accrued benefits (Note 15)	197 127	186 275
	<u>7 497 630</u>	<u>12 306 109</u>
	<u>\$12 249 975</u>	<u>\$17 238 099</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$740 623	\$302 472
Bank borrowing (Note 11)	150 000	1 675 000
Accounts payable and accruals	4 041 681	4 148 190
Holdbacks on contracts	186 937	52 345
Instalment on long-term debt (Note 12)	600 000	40 000
	<u>5 719 241</u>	<u>6 218 007</u>
Long-term debt (Note 12)		600 000
	<u>5 719 241</u>	<u>6 818 007</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 13)	69 825 000	69 825 000
Contributed surplus	4 302 500	4 302 500
Deficit	<u>(67 596 766)</u>	<u>(63 707 408)</u>
	<u>6 530 734</u>	<u>10 420 092</u>
	<u>\$12 249 975</u>	<u>\$17 238 099</u>
CONTINGENCIES (Note 18)		
COMMITMENTS (Note 19)		
SUBSEQUENT EVENT (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-JAMES**CASH FLOW**

for the year ended December 31, 2005

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Net loss	\$(3 889 358)	\$(2 999 351)
Items not affecting liquid assets:		
Depreciation of capital assets	263 248	329 217
Gain on disposal of capital assets	(15 030)	(419)
Lasting net depreciation on investments	3 558 554	3 000 000
Loss (gain) on disposal of investment	46 741	(284 243)
Change in assets as accumulated benefits	(10 852)	(2 589)
Share in the results of the satellite corporation	57 627	85 813
Change in non-cash elements linked to operations (Note 14)	<u>374 020</u>	<u>(103 486)</u>
Cash flows provided by operating activities	<u>384 950</u>	<u>24 942</u>
INVESTMENT ACTIVITIES		
Acquisition of investments	(970 834)	(1 520 000)
Proceeds from disposal of investments	1 933 964	743 590
Acquisition of assets intended for sale (Note 7)	(1 794 055)	
Contribution to assets intended for sale (Note 7)	1 791 255	
Acquisition of capital assets	(305 352)	(117 759)
Proceeds from disposal of capital assets	54 530	17 528
Contribution to capital assets	<u>198 683</u>	<u>51 958</u>
Cash flows provided by (used for) investment activities	<u>908 191</u>	<u>(824 683)</u>
FINANCING ACTIVITIES		
Bank loan	(1 525 000)	650 000
Long-term debt repayment	<u>(40 000)</u>	<u>(40 000)</u>
Cash flows (used for) provided by financing activities	<u>(1 565 000)</u>	<u>610 000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(271 859)	(189 741)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 906</u>	<u>195 647</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$(265 953)</u></u>	<u><u>\$5 906</u></u>

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

1. CONSTITUTION AND PURPOSE

The Société de développement de la Baie-James (the Société) was established under the James Bay Region Development Act (R.S.Q., c. D-8.2). All of its shares are held by the Gouvernement du Québec. The purpose of the Société is to promote, from a sustainable development viewpoint, the territory's economic development, development and exploitation of natural resources, other than hydroelectric. It may initiate, support and participate in projects targeting these goals. Its mission also includes developing the territory under municipal jurisdiction where development and land use planning is concerned.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Inventories

Inventories are valued using the lesser value method (cost – net realization value), where the cost is determined using the successive depletion method.

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 lasting net depreciation in book value of investments and the loss is posted to the fiscal year's results.

Capital assets

Capital assets are recorded at cost minus contributions received from third parties and are depreciated over their estimated useful lives on a straight-line basis over the following terms:

Buildings and improvements to buildings owned	
for rental purposes	5, 10 and 20 years
Modular homes	10 years
Furniture, fixtures, equipment and infrastructures	3 and 5 years
Computer hardware and vehicles	3 years

Assets intended for sale

Long-term assets intended for sale are estimated using the lesser value method (book value – fair value minus selling costs). The fair value is determined using the method of price of similar goods and cease to be amortized as long as they are classified as intended for sale.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

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

2. ACCOUNTING POLICIES (cont'd)

Proceeds reporting

Service deliveries and sales

Revenues from the delivery of services, sales and management income are reported when the following conditions have been fulfilled:

- 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 using the straight-line method over the duration of the rental contracts. Surplus rent reported over amounts receivable under rental contracts is shown as rent receivable in the balance sheet. Certain rental contracts include conditions requiring tenants to reimburse a proportional share of property taxes and shared costs. These amounts are reported over the period in which the related expenses are incurred. Expenses are reimbursed on a monthly basis based on the amount estimated at the beginning of the fiscal year. Any difference between the amount reimbursed and the amount reported as rental income is posted to rent receivable or payable.

Investment income and revenues from commitments

Investment operations are recorded the date of the transaction and the resulting income is reported using 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 disposal of investments are established using the average cost method. Transaction fees associated with the acquisition or disposal of investments are included in the cost of investments acquired or treated as a reduction in the proceeds from the disposal of these investments.

Pension plan

The cost of the pension plan is determined by actuarial calculations and the plan is capitalized using contributions determined using the accumulated benefit method. The pension costs are recorded under results and represent the sum of the following elements:

- The cost of pension benefits granted in exchange for services rendered by employees during the fiscal year;
- Interest expenses on the accumulated benefit obligation and estimated yield on plan assets. To calculate the estimated yield on plan assets, the latter are evaluated at their fair value;
- Amortization of the net cumulative actuarial gains and losses, unconsolidated and higher than 10% of the accumulated benefits obligation or of the fair value of plan assets, according to the higher of the two amounts calculated using the straight-line method over the average estimated duration of the active career of the group of employees participating in the plan (16 years in 2005 and 2004).

Tax status

Under federal and provincial tax legislation, the James Bay Energy Corporation is not subject to Québec and Canadian income tax. It is, however, subject to provincial tax on capital.

Cash flows

The Société's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts whose balances often fluctuate between an overdraft and available funds.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

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

3. NET LOSS BY ACTIVITY

	2005			2004
	Revenue	Expenditures	Other expenditures	Net gain (loss)
Head office	\$39 119	\$1 339 580		\$(1 300 461)
Services	11 698 798	10 746 920		951 878
Development and investment	261 564	760 277	\$3 616 181	\$(4 114 894)
Real estate	1 542 160	1 520 785		21 375
Hotel and petroleum industry	4 852 080	4 330 559		521 521
Specials	16 193	(15 030)		31 223
	<u>\$18 409 914</u>	<u>\$18 683 091</u>	<u>\$3 616 181</u>	<u>\$(3 889 358)</u>
				<u>\$(2 999 351)</u>

The Société records its revenue and expenditure by sector of activity, including the following:

Head office activities

- Management fees earned
- Interest earnings
- Interest expenses
- Expenses related to the Matagami and Chibougamau offices
- Expenses related to administrative services, human resources and data processing
- Expenses related to the board of directors, the presidency and the vice-presidency office
- Communication expenses

Service activities

- Management of transportation infrastructures

Development and investment activities

- Mining claims management
- Management and income investments
- Recovery of certain expenses
- Gain or loss on disposal of investments
- Economic development projects
- Expenses related to the economic development and investment

Real estate activities

- Building operations

Real estate, hotel and petroleum industry activities

- Management of Auberge Radisson
- Operation of km 381 Rest Stop

Special activities

- Gain or loss on transfer of capital assets
- Airport immoveables assistance program (PAIA)

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**4. SERVICE DELIVERY**

The Société provides transportation infrastructure management services as follows:

	2005	2004
Related parties:		
Hydro-Québec	\$9 460 021	\$9 923 382
Ministère des Transports	1 139 533	1 172 000
Other	143 766	623 825
	<u>\$10 743 320</u>	<u>\$11 719 207</u>

The maintenance and operating costs for the road linking Matagami to Radisson and Chisasibi, and the Transtaïga highway, and the La Grande-Rivière and Fontanges airports are paid by Hydro-Québec and these assets are managed by a management committee comprising Hydro-Québec and Société representatives.

5. ACCOUNTS RECEIVABLE

	2005	2004
Accounts receivable:		
Hydro-Québec	\$3 176 308	\$2 865 288
Ministère des Transports	125 644	413 112
Other	1 036 495	1 113 253
	<u>4 338 447</u>	<u>4 391 653</u>
Allowance for doubtful accounts	<u>(287 249)</u>	<u>(5 201)</u>
	<u>\$4 051 198</u>	<u>\$4 386 452</u>

6. INVENTORIES

	2005	2004
Petroleum products	\$143 070	\$161 488
Other	63 845	62 374
	<u>\$206 915</u>	<u>\$223 862</u>

7. ASSETS INTENDED FOR SALE

On June 11, 2003, the Société adopted a sales plan for the Pierre-Radisson complex. This sales plan was modified on June 16, 2004 to add Auberge Radisson. The potential buyer, a related party under common control, is a public enterprise. Management foresees that the sales plan will be completed in its entirety by June 30, 2006. Improvements to the assets destined for sale were made at the request of the potential buyer and almost wholly reimbursed by the latter.

The net value of the assets intended for sale is:

	2005	2004
Fixed assets	<u>\$1 515 860</u>	<u>\$1 513 060</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**8. INVESTMENTS**

	2005	2004
Investment in a satellite corporation (participation of 33%)		
99 parts de Camp 257 S.E.C. at consolidation value	\$121 160	\$178 787
Advance bearing interest at 8.75% reimbursable primarily from net earnings realized by the satellite corporation	310 921	310 921
	<u>432 081</u>	<u>489 708</u>
Common shares		
Private corporations		310 000
Public corporations	9 422 876	10 324 011
	<u>9 422 876</u>	<u>10 634 011</u>
Securities that are convertible into common shares		
Debenture, bearing interest at 10% and maturing in 2006		190 000
Debenture, bearing interest at 8% and maturing in 2007 ⁽¹⁾	600 000	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	450 000	450 000
	<u>1 050 000</u>	<u>1 240 000</u>
Loans and advances, bearing interest up to 10% and maturing until 2008	140 248	156 560
	<u>11 045 205</u>	<u>12 520 279</u>
Lasting net depreciation on investments ⁽²⁾	(6 150 978)	(3 000 000)
	<u>\$4 894 227</u>	<u>\$9 520 279</u> \$

(1) This debenture also bears production interest of \$3 per tonne of ore mined underground, established on the basis of operating only one machine and a royalty of \$0.25 per tonne of ore mined on the ground or underground, up to an annual maximum of \$20 000.

(2)

	2005	2004
Permanent loss in value on investments at the beginning	\$3 000 000	\$200 002
Permanent loss in value on fiscal year investments	3 558 554	3 000 000
Permanent loss in value on investments disposed of	(407 576)	(200 002)
Permanent loss in value on investment at the end	<u>\$6 150 978</u>	<u>\$3 000 000</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**9. CAPITAL ASSETS**

	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>

	2004			
	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	3 638 461	529 345	\$2 441 103	668 013
Modular homes	1 261 359	645 143	445 309	170 907
Furniture and fixtures	1 577 539	641 238	925 454	10 847
Computer hardware	639 219		546 781	92 438
Machinery and equipment	2 632 779	2 159 081	433 251	40 447
Vehicles	3 329 394	3 017 635	278 945	32 814
	<u>\$19 745 354</u>	<u>\$13 588 016</u>	<u>\$5 070 843</u>	<u>\$1 086 495</u>

- (1) The contributions received from the James Bay Energy Corporation, Hydro-Québec, Municipalité de Baie James and the federal government for fixed assets are posted to reduce the cost of these contributions. In 2005, the Société collected \$198 683 in contributions (2004: \$51 958).

10. MINING PROPERTIES

At December 31, 2005, the Société held interests in 12 mining properties located in the James Bay territory. The Société holds 533 mining titles in these different mining properties, which all dropped in value in the past and whose fair value could not be reasonably determined.

11. 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, 2006. At December 31, 2005, the interest rate was 5.00% (2004: 4.25%).

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**12. LONG-TERM DEBT**

	<u>2005</u>	<u>2004</u>
Owed to the Financing Fund of the Gouvernement du Québec, 6.84%, guaranteed by the Minister and repayable as of 2001 in annual instalments of \$40 000 until 2006 when the balance is due	\$600 000	\$640 000
Payment due within a year	<u>600 000</u>	<u>40 000</u>
	<u><u>\$600 000</u></u>	<u><u>\$600 000</u></u>

13. CAPITAL STOCK

	<u>2005</u>	<u>2004</u>
Authorized: 10 000 000 common shares with a par value of \$10 each.		
Issued and paid up: 6 982 500 common shares	<u><u>\$69 825 000</u></u>	<u><u>\$69 825 000</u></u>

Société shares are part of the public domain and are assigned to the Minister of Finance.

14. CASH FLOWS

The change in non-cash elements linked to operations is as follows:

	<u>2005</u>	<u>2004</u>
Decrease in accounts receivable	\$335 254	\$221 548
Increase in inventories	16 947	(18 687)
Change in prepaid expenses	(6 264)	10 417
Decrease in accounts payable and accruals	(106 509)	(209 698)
Change in withholdings on contracts	<u>134 592</u>	<u>(107 066)</u>
	<u><u>\$374 020</u></u>	<u><u>\$(103 486)</u></u>

Cash and cash equivalents are as follows:

	<u>2005</u>	<u>2004</u>
Cash on hand	\$474 670	\$308 378
Bank overdraft	<u>(740 623)</u>	<u>(302 472)</u>
	<u><u>\$(265 953)</u></u>	<u><u>\$5 906</u></u>

The interest paid during the year ended December 31, 2005 totalled \$105 998 (2004: \$81 862).

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005
15. PENSION PLAN
Plan description

The Société offers its employees a defined-benefit retirement plan offering benefits based on years of service and average salary at career-end. The Société's policy involves maintaining its contributions at a level that allows it to pay benefits. It assesses its defined-benefit obligations and the fair value of plan assets for accounting purposes annually at December 31. The last actuarial valuation dates from December 31, 2002. The actuarial evaluation at December 31, 2005 is currently under way and will be released in the coming months. While awaiting this new evaluation, actuarial assumptions were re-evaluated for the purposes of the current fiscal year.

The retirement charge and obligation vis-à-vis accrued benefits are established using actuarial calculations based on management's most probable hypotheses and extrapolated based on the most recent actuarial valuation.

Total cash payments

Total cash payments for the pension plan in 2005 comprise defined-benefit plan contributions in the amount of \$126 251 (2004: \$129 717).

Defined-benefit plan

The following table compared the defined benefit obligation and the fair value of plan assets for fiscal years ending December 31, 2005 and December 31, 2004:

	2005	2004
Obligation in the form of accrued benefits	\$(2 897 547)	\$(2 348 938)
Fair value of plan assets	2 793 194	2 514 509
Capitalization situation – (deficit) surplus	(104 353)	165 571
Unamortized net actuarial loss	301 480	20 704
Assets in the form of accrued benefits	<u>\$197 127</u>	<u>\$186 275</u>

Composition of plan assets

	2005	2004
Category of assets		
Debt-like securities	47.5%	47.0%
Debt instruments	52.5	53.0
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 as follows:

	2005	2004
Defined-benefit obligation		
Actualization rate	5.0%	6.0%
Remuneration increase rate	3.5	4.0

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)
December 31, 2005**15. PENSION PLAN (cont'd)****Composition of plan assets**

	2005	2004
Benefit cost		
Actualization rate	5.0%	6.0%
Rate of return foreseen for plan assets	6.0	6.0
Remuneration increase rate	3.5	4.0

Other information related to the defined-benefit plan is as follows:

	2005	2004
Charge for the year	\$115 399	\$122 542
Employer contributions	126 251	129 717
Employee contributions	61 010	62 676
Benefits paid	162 027	15 437

16. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future. The following chart shows the book value and fair value of the Société's long-term financial instruments:

	2005		2004	
	Book value	Fair value	Book value	Fair Value
Financial assets:				
Investments:				
Ordinary capital stock in public corporations	\$3 702 013 ⁽¹⁾	\$3 667 403 ⁽²⁾	\$7 324 011 ⁽¹⁾	\$6 348 949
Warrants in public corporations ⁽³⁾		134 286 ⁽²⁾		
Titles convertible into ordinary capital stock	669 885	669 885		
That cannot be estimated ⁽⁴⁾	522 329		2 196 268	
Long-term debt (including short-term portion)	600 000	595 528	640 000	602 428

- (1) The category of investments whose book value is higher than the fair value, management plans to recover the book value.
- (2) The fair value of 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 4, 2006 and December 28, 2007.
- (4) The fair value of these financial instruments cannot be estimated at a reasonable cost given the lack of markets for this type of investment.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

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

17. RELATED PARTY TRANSACTIONS

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

18. CONTINGENCIES

As a signatory to the James Bay and Northern Québec Agreement, the Société has been subject to certain lawsuits related to the latter's application. Management feels that these lawsuits are unfounded and, consequently, no provision has been recorded in the books in this regard.

On February 26, 1993, Ressources MSV inc. (MSV), the Société and Westminer Canada Ltd. (Westminer) signed a compensation agreement to indemnify Westminer against all future environmental claims related to a mine site. The future reclamation of the mine site was estimated in 1994 at \$4 300 000 by a firm of engineering consultants and a fund was set up for this purpose. Westminer and MSV paid this amount. The amounts paid are held in trust and are not included in the financial statements. In 1999, a reassessment estimated site restoration costs to be \$3 212 050. The total amount of restoration work done since the creation of the environment fund is \$850 712. The value of the funds was \$4 599 435 at December 31, 2005. 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 is the net worth per tonne is higher than \$70.

The Société owns lands that require decommissioning. This work was started during the fiscal year and the Société did work costing \$77 817. At December 31, 2005, the balance of the provision representing the total cost of work for the next two fiscal years is \$193 718. This work includes a new expert study in 2007 to establish the follow-up to the rehabilitation plan, if applicable.

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, 2005, the total eventual liability resulting under these five agreements is \$945 880.

19. COMMITMENTS

After a lease ending December 31, 2006, the Société has committed to paying \$38 190.

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.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

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

20. SUBSEQUENT EVENT

Under a joint venture agreement concluded in 1998 with Falconbridge Ltée, the Société holds a 10% share in the eventual revaluation of all mining deposits mined on the Daniel and Lozile in properties in the Matagami sector.

In 2005, at the request of Falconbridge Ltée, the Société analyzed the desirability of investing in the commercial mining of the Persévérance deposit located on Daniel property. Following negotiations between the two parties, on February 23, 2006, the Société agreed to transfer all of its rights, titles and interest in the mining claims included in the joint venture agreement. The consideration totals \$6 500 000, notwithstanding certain conditions, including the Gouvernement du Québec's approval.

21. COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to comply with the presentation adopted in 2005.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**MANAGEMENTS' REPORT**

The financial statements of the Société de développement de la Baie-James were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Société's financial position and operations. The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors is responsible for examining and approving the financial statements and for overseeing the manner in which management performs its financial reporting duties.

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

Raymond Thibault, P. Eng.
Acting President-CEO

Matagami, February 17, 2006

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**AUDITORS' REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société de développement de la Baie-James as at December 31, 2005 and revenues and deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, February 17, 2006

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
(R.S.Q., c. S-10.002)

REVENUES, EXPENSES AND SURPLUS
for the year ended March 31, 2006

	2006	2005
FINANCIAL MEASURES		
REVENUES		
Gouvernement du Québec subsidies (Note 3)	\$48 637 132	\$43 432 891
Interest on investments and loans	1 966 137	1 642 487
Amounts recovered on investment and assistance repayable under financial assistance programs (Note 4)	691 350	1 505 202
Loan guarantee fees (Note 5)	567 264	741 253
Tax credit management fees	1 460 648	1 346 453
Other revenue	17 305	78 361
	<u>53 339 836</u>	<u>48 746 647</u>
EXPENSES		
Financial assistance programs (Note 6):		
Film and television productions	27 246 891	22 905 258
Variety shows and disks	7 273 281	7 704 940
Book and specialized edition	3 618 685	3 824 587
Art trades	3 040 554	2 732 994
International affairs	3 628 317	2 896 939
	<u>44 807 728</u>	<u>40 064 718</u>
Allowance for bad debts and for losses (Note 7)	646 056	791 401
Administrative expenses (Note 8)	8 675 888	8 438 190
Interest on debts	128 497	165 600
	<u>54 258 169</u>	<u>49 459 909</u>
LOSS FROM MANAGEMENT OF FINANCIAL MEASURES	<u>(918 333)</u>	<u>(713 262)</u>
IMMOVABLE CULTURAL PROPERTY		
REVENUES		
Gouvernement du Québec subsidies (Note 3)	2 695 255	2 890 872
Rent and other	1 618 679	1 506 156
Interest on short-term investments	40 798	20 055
	<u>4 354 732</u>	<u>4 417 083</u>
EXPENSES		
Operating and administrative expenses (Note 9)	3 287 121	3 119 413
Interest on debts	776 569	1 066 671
Loss on disposal of an immovable		2 687
	<u>4 063 690</u>	<u>4 188 771</u>
GAIN FROM MANAGEMENT OF IMMOVABLE CULTURAL PROPERTY	<u>291 042</u>	<u>228 312</u>
Amounts carried forward	<u>\$(627 291)</u>	<u>\$(484 950)</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

REVENUES, EXPENSES AND SURPLUS (cont'd)
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
Amounts brought forward	<u>\$(627 291)</u>	<u>\$(484 950)</u>
INVESTMENTS		
Investment income from limited partnerships	152 297	453 682
Interest costs on long-term Gouvernement du Québec advance	<u>21 803</u>	<u>84 442</u>
INVESTMENT INCOME	<u>130 494</u>	<u>369 240</u>
NET LOSS	(496 797)	(115 710)
SURPLUS, BEGINNING OF YEAR	<u>2 238 470</u>	<u>2 354 180</u>
SURPLUS, END OF YEAR	<u><u>\$1 741 673</u></u>	<u><u>\$2 238 470</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, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash on hand	\$1 700 198	
Term deposits (Note 10)	18 817 930	\$18 239 863
Loans and other financial assistance (Note 11)	20 803 963	21 737 920
Assistance repayable (Note 6)	1 016 882	1 466 362
Accounts receivable and accrued interest	601 508	321 592
Term notes, without interest	234 771	500 916
Gouvernement du Québec subsidies receivable	17 288 829	18 710 817
Prepaid expenses and advances on commitments	796 197	502 248
Investment in limited partnerships (Note 12)	15 528 697	15 830 082
Fixed assets (Note 13)	<u>16 636 760</u>	<u>17 076 210</u>
TOTAL ASSETS	<u><u>\$93 425 735</u></u>	<u><u>\$94 386 010</u></u>
LIABILITIES		
Bank overdraft		\$536 703
Bank loan (Note 14)	\$353 500	2 283 674
Accounts payable and accruals	2 365 251	1 371 522
Interest accrued on long-term advance from the Gouvernement du Québec	21 803	84 442
Accrued interest on long-term debts	229 598	392 618
Amounts payable under financial assistance programs	14 036 953	12 601 941
Cumulated provisions for losses on loan guarantees related to business financing (Note 7)	734 938	821 916
Deferred revenue (Note 15)	20 188 228	21 380 497
Long-term Gouvernement du Québec advance (Note 16)	18 000 000	18 000 000
Long-term debts (Note 17)	<u>16 253 791</u>	<u>15 174 227</u>
	<u>72 184 062</u>	<u>72 647 540</u>
EQUITY		
Capital (Note 18)	19 500 000	19 500 000
Surplus	<u>1 741 673</u>	<u>2 238 470</u>
	<u>21 241 673</u>	<u>21 738 470</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$93 425 735</u></u>	<u><u>\$94 386 010</u></u>

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 CULTURELLES

CASH FLOW STATEMENT
for the year ended March 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Net loss	\$(496 797)	\$(115 710)
Adjustments to determine cash flow:		
Bad debts related to interim financing of tax credits	140 082	1 272
Provision for bad debts linked to assistance repayable	243 143	51 810
Allowance for bad debts and for losses	646 056	791 401
Loss on disposal of fixed assets	900	3 157
Depreciation of fixed assets	1 498 305	1 348 017
Revenue of investment in limited partnerships	(152 297)	(453 682)
	1 879 392	1 626 265
Change in non-cash items related to operating activities:		
Accounts receivable and accrued interest	(279 916)	307 475
Term notes	266 145	141 284
Gouvernement du Québec subsidies receivable	1 421 988	5 493 957
Prepaid expenses and advances on commitments	(293 949)	(91 016)
Accounts payable and accruals	993 729	(498 194)
Accrued interest on long-term Gouvernement du Québec advance	(62 639)	84 442
Interest accrued on the long-term debt	(163 020)	(31 408)
Amounts to pay under financial assistance programs	1 435 012	(240 016)
Deferred revenue	(1 332 351)	2 732 819
	1 984 999	7 899 343
Cash flows linked at operating activities	3 864 391	9 525 608
INVESTMENT ACTIVITIES		
Loans and other financial assistance	(14 539 812)	(21 133 923)
Assistance repayable	(328 750)	(389 085)
Acquisition of fixed assets	(1 059 755)	(773 482)
Distribution of share in the performance of limited partnerships	453 682	
Repayment of loans and other financing assistance	14 740 734	15 388 053
Recovery of assistance repayable	535 088	651 771
Cash flows linked at investment activities	(198 813)	(6 256 666)
Amounts carried forward	\$3 665 578	\$3 268 942

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

CASH FLOWS (cont'd)
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
Amounts brought forward	<u>\$3 665 578</u>	<u>\$3 268 942</u>
FINANCING ACTIVITIES		
Bank loan	(1 930 174)	309 486
Long-term debt	2 665 042	
Repayment of long-term debt	<u>(1 585 478)</u>	<u>(1 585 478)</u>
Cash flows linked at financing activities	<u>(850 610)</u>	<u>(1 275 992)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2 814 968	1 992 950
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>17 703 160</u>	<u>15 710 210</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 19)	<u><u>\$20 518 128</u></u>	<u><u>\$17 703 160</u></u>

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. INCORPORATING STATUTE AND OBJECTIVE

The Société de développement des entreprises culturelles (SODEC) is a legal person established and governed by the Act respecting the Société de développement des entreprises culturelles (R.S.Q., c. S-10.002). Under the Income Tax Act (R.S.C. 1985, c. 1, 5th supplement) and the Taxation Act (R.S.Q., c. 1-3), the Société is not subject to income tax.

Its purpose is to promote and support, in all regions of Québec, the establishment and development of cultural enterprises, including the media, and to help improve the quality of goods and services and their competitiveness in Québec, the rest of Canada and abroad. The Société is also responsible for recognizing works as Québec cinema in accordance with the standards set forth in government regulations under the Cinema Act (R.S.Q., c. C-18.1).

The Société owns immovable cultural property acquired from the Minister of Transport in 1989. The Société may also, with the Government's authorization, acquire, restore, renovate, manage or operate buildings.

2. MAJOR ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Loans and other financial assistance

Loans and other financial assistance include investments made by the Société under its business financing programs. These investments can take the form of stock purchases, loans or investments in projects are recorded at face value, plus interest accrued receivable, minus the cumulated provision for bad debts.

A loan is classified doubtful when the quality of the credit has deteriorated to the point that the Société is no longer reasonably certain of recovering all capital and interest. When a loan becomes doubtful, the recognition of interest income ceases and the Société reduces this participation by posting a cumulated provision for bad debts.

Loan guarantees appear as contingencies in the Société's financial statements. The loans resulting from the performance of loan guarantees related to an enterprise's financing are recorded to the Société's assets once the latter has approved the claim produced by the lending financial institution.

Cumulated provision and contribution for bad debts and losses

The cumulated provision for bad debts and losses is maintained at a level deemed adequate to absorb the bad debts and losses in the Société's portfolio. It is increased by the annual provision, which is posted to results, and reduced by the amount of the write-offs. The cumulated provision for bad debts and losses includes specific provisions and a general provision.

The specific provisions are established for each loan. The book value of a loan is rolled back to its estimated realizable value by discounting projected future cash flows.

The general provision is established for loan guarantees related to business financing. The amount of the general provision is estimated based on past losses.

The contribution for losses represents an amount cashed to absorb potential losses resulting from the loan guarantee for business financing. Should the contingency or loan guarantee become doubtful, the contribution will be posted to results as revenue in the fiscal year in which the losses were disclosed.

Losses related to the guarantees granted under interim tax credit funding programs are refundable by the Gouvernement du Québec.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. MAJOR ACCOUNTING POLICIES (cont'd)

Assistance repayable and cumulated provision for bad debts

Assistance repayable is financial assistance linked to a predefined repayment obligation of a minimum duration of two years and generally not exceeding five years. This assistance is recorded in the balance sheet at face value minus a cumulated provision for bad debts. This cumulated provision is established by examining the probability of recovering each case of repayable assistance based on past losses. The annual variation in the cumulated provision is posted to results as program expenditures.

Investment in limited partnerships

The investment in a limited partnership as a limited partner is recorded at acquisition cost. When the investment suffers a lasting decline in value, the book value is reduced. This reduction is charged directly to the year-end statement.

Investment in a satellite partnership as sponsor and sponsored is recorded at consolidation value. The limited partnership is an investment corporation whose assets are recorded at fair market value.

Fixed assets

Fixed assets are recorded at cost and amortized over their estimated service life using the straight-line method. The cost of restoration work includes materials and equipment, direct labour, indirect costs and interim financing costs during the work.

Restoration work	25 years
Major repairs	from 5 to 10 years
Office furniture	10 years
Equipment	5 years
Data processing equipment and software	from 4 to 7 years
Leasehold improvements	term of lease

Works of art and restoration work in progress are not depreciated.

Deferred subsidies

Specific subsidies received for financial assistance programs and for any other project are deferred and posted to results as revenues in conjunction with related commitments.

Revenue

Recovery of investment and assistance repayable related to a predefined repayable obligation is posted to results when cashed or payable.

Financial assistance programs

Financial assistance awarded in the form of subsidies, investments and refundable aid, other than that related to a predefined repayment obligation, is posted to results as program expenditures. These costs are recorded in the fiscal year in which they are authorized and when the beneficiary has met the eligibility criteria.

When the terms and conditions governing the financial assistance are not respected, the project cancellation is recorded in the fiscal year during which the facts were disclosed.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short-term investments maturing within three months of the date they were acquired.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. MAJOR ACCOUNTING POLICIES (cont'd)
Pension plans

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

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	<u>2006</u>	<u>2005</u>
SUBSIDIES GRANTED		
Financial measures		
Operations	\$3 615 300	\$2 865 300
Debt related to financial assistance programs	128 497	165 600
Financial assistance programs:		
Film and television productions	25 978 454	25 978 453
Variety shows and disks	7 349 367	7 121 091
Books and specialized edition	3 735 283	3 463 559
Art trades	3 108 314	2 708 314
International affairs	3 622 783	4 497 783
Specific assistance	1 037 262	
Immovable cultural property		
Operations	1 108 900	1 108 900
Debts related to fixed assets	1 234 460	1 417 871
	<u>50 918 620</u>	<u>49 326 871</u>
SUBSIDIES BROUGHT FORWARD AT THE BEGINNING OF THE YEAR		
Financial measures:		
Financial assistance programs:		
Film and television productions	5 950 785	3 097 590
Variety shows and disks	203 156	839 236
Books and specialized edition	105 041	339 369
Art trades	62 644	80 724
International affairs	1 739 206	336 704
Immovable cultural property		
Debts related to immovables	12 644 536	13 008 637
	<u>20 705 368</u>	<u>17 702 260</u>
SUBSIDIES BROUGHT FORWARD AT YEAR-END		
Financial measures		
Financial assistance programs:		
Film and television productions	(4 682 347)	(5 950 785)
Variety shows and disks	(346 242)	(203 156)
Books and specialized 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 immovables	(12 292 641)	(12 644 536)
	<u>(20 291 601)</u>	<u>(20 705 368)</u>
	<u>\$51 332 387</u>	<u>\$46 323 763</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES (cont'd)

The subsidies break down as follows:

	2006	2005
Financial measures	\$48 637 132	\$43 432 891
Immovable cultural property	2 695 255	2 890 872
	<u>\$51 332 387</u>	<u>\$46 323 763</u>

4. AMOUNTS RECOVERED ON INVESTMENTS AND ASSISTANCE REPAYABLE UNDER FINANCIAL ASSISTANCE PROGRAMS

	<u>2006</u>			<u>2005</u>
	<u>Investments</u>	<u>Assistance repayable*</u>	<u>Total</u>	<u>Total</u>
Film and television productions	\$506 046	\$3 439	\$509 485	\$1 179 313
Variety shows and disks				32 428
Books and specialized edition				3 000
Multimedia		15 378	15 378	2 008
International affairs		166 487	166 487	288 453
	<u>\$506 046</u>	<u>\$185 304</u>	<u>\$691 350</u>	<u>\$1 505 202</u>

* These recoveries come from refundable aid not associated with a pre-defined obligation to repay.

5. LOAN GUARANTEE FEES

	2006	2005
Guarantee fees related to enterprise financing	\$304 650	\$398 515
Guarantee fees related to interim tax credit financing	209 451	276 668
Bad debts linked to interim tax credit financing	(140 082)	(1 272)
Deficit of fee income over operating expenses (Note 15)	193 245	67 342
	<u>262 614</u>	<u>342 738</u>
	<u>\$567 264</u>	<u>\$741 253</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. FINANCIAL ASSISTANCE PROGRAMS AND ASSISTANCE REPAYABLE

	2006	
	Film and television productions	Variety shows and disks
EXPENSES – FINANCIAL ASSISTANCE PROGRAMS		
Investments – selective assistance	\$24 380 877	
Investments – corporate assistance	375 000	
Subsidies	2 946 747	\$7 308 364
Assistance repayable unrelated to predefined repayment obligations	130 000	
Provision for bad debts		67 000
Cancellations and amounts recovered	(1 103 563)	(114 870)
Other	517 830	12 787
	<u>\$27 246 891</u>	<u>\$7 273 281</u>

	2005	
	Film and television productions	Variety shows and disks
ASSETS – ASSISTANCE REPAYABLE		
Opening balance		\$632 812
Assistance repayable related to predefined repayment obligations granted in the year		
Amounts recovered		(87 506)
Write-offs		
		<u>545 306</u>
Cumulated provision for bad debts		<u>(67 000)</u>
Closing balance		<u>\$478 306</u>

2006				2005
Books and specialized edition	Art trades	International affairs	Total	Total
			\$24 380 877	\$19 880 246
			375 000	492 877
\$3 555 645	\$2 962 283	\$2 585 178	19 358 217	19 214 175
		777 250	907 250	750 615
53 513	6 924	115 706	243 143	51 810
		(31 217)	(1 249 650)	(1 047 347)
9 527	71 347	181 400	792 891	722 342
<u>\$3 618 685</u>	<u>\$3 040 554</u>	<u>\$3 628 317</u>	<u>\$44 807 728</u>	<u>\$40 064 718</u>

2006				2005
Books and specialized edition	Art trades	International affairs	Total	Total
\$409 808	\$88 980	\$494 055	\$1 625 655	\$2 000 141
		328 750	328 750	389 085
(152 513)	(31 060)	(264 009)	(535 088)	(651 771)
		(89 250)	(89 250)	(111 800)
257 295	57 920	469 546	1 330 067	1 625 655
(121 425)	(10 924)	(113 836)	(313 185)	(159 293)
<u>\$135 870</u>	<u>\$46 996</u>	<u>\$355 710</u>	<u>\$1 016 882</u>	<u>\$1 466 362</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. CUMULATED PROVISION AND CONTRIBUTION FOR BAD DEBTS AND LOSSES

	2006	2005
Opening balance	<u>\$6 169 742</u>	<u>\$5 729 503</u>
Write-offs during the year:		
Loans granted by the Société	388 973	47 581
Loans resulting from the fulfilment of loan guarantees related to business financing	<u>78 203</u>	<u>303 581</u>
	467 176	351 162
Allowance for the year:		
Loans granted by the Société	660 855	(532 350)
Loans resulting from the fulfilment of loan guarantees related to business financing	72 179	1 587 754
Loan guarantees related to business financing	<u>(86 978)</u>	<u>(264 003)</u>
	646 056	791 401
Closing balance	<u><u>\$6 348 622</u></u>	<u><u>\$6 169 742</u></u>

The accumulated allowance for bad debts and for losses breaks down as follows:

	2006	2005
Loans granted by the Société (Note 11)	\$3 764 983	\$3 493 101
Loans resulting from the fulfilment of loan guarantees related to business financing (Note 11)	<u>1 848 701</u>	<u>1 854 725</u>
	5 613 684	5 347 826
Loan guarantees related to business financing*	<u>734 938</u>	<u>821 916</u>
	<u><u>\$6 348 622</u></u>	<u><u>\$6 169 742</u></u>

* Includes the \$375 000 contribution for losses on the loan guarantee related to business financing.

8. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$6 748 714	\$6 666 675
Professional fees	94 348	156 830
Travel, representation and conventions	157 134	129 684
Rent	597 370	593 353
Insurance	32 625	32 892
Stationery and office expenses	357 182	314 714
Advertising and promotion	225 218	161 939
Loss on disposal of fixed assets	900	470
Depreciation of fixed assets	380 905	295 375
Other expenses	<u>81 492</u>	<u>86 258</u>
	<u><u>\$8 675 888</u></u>	<u><u>\$8 438 190</u></u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. IMMOVABLE CULTURAL PROPERTY - OPERATING AND ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$354 676	\$352 074
Professional fees	114 897	103 729
Travelling, representation and conventions	3 588	3 746
Taxes	415 998	412 186
Insurance	131 092	138 098
Electricity and heating	264 347	268 934
Maintenance and repairs	723 695	644 145
Stationery and office expenses	27 244	21 891
Depreciation of fixed assets	1 117 400	1 052 642
Other expenses	134 184	121 968
	<u>\$3 287 121</u>	<u>\$3 119 413</u>

10. TERM DEPOSITS

Term deposits comprise commercial promissory notes and bankers' acceptances. They are recorded at cost and bear interest at rates varying between 3.67% and 4.10%.

11. LOANS AND OTHER FINANCIAL ASSISTANCE

	2006	2006	2005	2005
	Amount	Allowance for losses (Note 7)	Net amount	Net amount
Common shares with voting rights	\$450 000		\$450 000	\$450 000
Loans and debentures	16 267 234	\$641 901	15 625 333	15 614 852
Doubtful loans and debentures				
Loans granted by the Société	3 431 529	3 123 082	308 447	1 171 772
Loans resulting from the fulfilment of guarantees related to business	6 268 884	1 848 701	4 420 183	4 501 296
	<u>\$26 417 647</u>	<u>\$5 613 684</u>	<u>\$20 803 963</u>	<u>\$21 737 920</u>

All loans awarded by the Société bear interest at a fluctuating rate. The interest rate in effect for loans at March 31, 2006, calculated using a weighted average, is 7.58%, i.e. the prime rate plus 2.33%.

These loans, apart from doubtful loans, mature during fiscal years ending March 31:

2007	\$8 686 487
2008	1 012 280
2009	1 741 909
2010	1 184 042
2011	439 238
2012 and after	<u>2 561 377</u>
	<u>\$15 625 333</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006
12. INVESTMENT IN LIMITED PARTNERSHIPS

	2006	2005
Participation, at devaluated cost, as a sponsor in a limited partnership whose activity is to invest in undertakings working in the field of culture. The Société will continue to exist until October 24, 2006, unless it is dissolved before this time as per the agreement.*	\$7 400 000	\$7 400 000
Participation, at consolidation value, as a sponsor and sponsored party in a limited partnership whose activity is to offer cultural undertakings specialized financing tools. The Société will continue to exist until March 31, 2009, unless it is dissolved before this time as per the agreement.**	8 128 697	8 430 082
	<u>\$15 528 697</u>	<u>\$15 830 082</u>

* The sponsors are considering the possibility of extending the duration of the limited partnership.

** Includes realized profit of \$21 803 and unrealized profit of \$130 494.

13. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net amount	Net amount
Fixed assets				
Restoration work	\$18 046 345	\$4 999 904	\$13 046 441	\$13 719 408
Major repairs*	4 272 958	2 314 871	1 958 087	1 836 182
Office furniture	574 524	328 804	245 720	227 383
Equipment	278 871	218 502	60 369	63 251
Data processing equipment and software*	833 076	695 532	137 544	142 892
Leasehold improvements	478 441	259 884	218 557	227 102
Work of art	48 798		48 798	48 798
	24 533 013	8 817 497	15 715 516	16 265 016
Intangible assets				
Software**	1 819 049	897 805	921 244	811 194
	\$26 352 062	\$9 715 302	\$16 636 760	\$17 076 210

* Includes assets of \$121 918 recorded at cost and not amortized since they were not operational at March 31, 2006.

** Includes assets of \$49 900 recorded at cost and not amortized since they were not operational at March 31, 2006.

14. CREDIT LINES

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 that may not exceed one year.

The Société is authorized by Québec government order-in-council to contract short-term borrowings or use its credit line for an amount not to exceed \$353 500 to keep buildings belonging to its housing stock in good condition. The borrowings may be contracted with a financial institution or the Financing Fund of the Gouvernement du Québec and bear interest at a variable or fixed rate, without exceeding the prime rate, for a term that may not exceed one year.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**15. DEFERRED REVENUE**

	2006	2005
Interim financing of tax credits (Note 24)		
Opening balance	\$(382 843)	\$(208 668)
Net amount of write-offs / receipts (disbursements) on files in default	183 048	(106 833)
Deficiency of fee earnings over operating expenses	(193 245)	(67 342)
Closing balance	(393 040)	(382 843)
Deferred subsidies (Note 3)	20 291 601	20 705 369
Other deferred revenue	289 667	1 057 971
	<u>\$20 188 228</u>	<u>\$21 380 497</u>

16. LONG-TERM GOUVERNEMENT DU QUÉBEC ADVANCES

	2006	2005
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership less the equivalent of 35% of this return, payable when the limited partnership winds up or no later than December 31, 2006.	\$10 000 000	\$10 000 000
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership up to an annual maximum equal to the prime rate, payable when the limited partnership winds up or no later than December 31, 2011.	8 000 000	8 000 000
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

17. LONG-TERM DEBTS

	2006	2005
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 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.	\$5 135 971	\$5 435 776
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 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 movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan.	5 828 306	6 200 901
Amounts carried forward	<u>\$10 964 277</u>	<u>\$11 636 677</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

 NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006

17. LONG-TERM DEBTS (cont'd)

	2006	2005
Amounts brought forward	\$10 964 277	\$11 636 677
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 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.	2 372 154	3 162 873
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 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.	333 046	374 677
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 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	2 584 314	
	<u>\$16 253 791</u>	<u>\$15 174 227</u>

The amounts of capital instalments to pay on long-term debts over the next fiscal years are as follows:

2007	\$1 763 342
2008	1 763 342
2009	1 763 342
2010	972 624
2011	972 624
2012 to 2015	9 018 517
	<u>\$16 253 791</u>

18. CAPITAL

As at March 31, 1995, the capital stock of the Société générale des industries culturelles, a government agency, became the Société's capital.

19. CASH FLOWS

- a) 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	\$1 700 198	
Temporary investments	18 817 930	\$18 239 863
Bank overdraft		(536 703)
	<u>\$20 518 128</u>	<u>\$17 703 160</u>

Interest paid by the Société during the fiscal year totals \$1 152 207 (2005: \$1 263 692).

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

20. FUTURE FRINGE BENEFITS
Pension plans

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

The Société's contributions charged to the year-end statement amount to \$335 308 (2005: \$250 728). The Société's liability towards this Government plan is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2006		2005
	Sick leave	Vacation time	Total
Opening balance	\$113 412	\$665 276	\$778 688
Charges for the year	158 029	500 382	658 411
Benefits paid during the year	(157 921)	(484 557)	(642 478)
Closing balance	<u>\$113 520</u>	<u>\$681 101</u>	<u>\$778 688</u>

21. FINANCIAL INSTRUMENTS
Credit risk

The Société's exposure to credit risk corresponds to the book value of financial assets. The Société evaluates these assets on an ongoing basis and records a provision for losses when the accounts are deemed irrecoverable.

Fair value of financial instruments

The fair value of cash, short-term investments, assistance to be repaid, receivables, short-term notes, bank overdraft, bank borrowings, payables, accrued interest and amounts to be paid under financial assistance programs is equivalent to the book value, given that these are short-term elements.

In the case of variable-rate loans, the estimated fair value is presumed to correspond to the book value. For doubtful loans, the fair value corresponds to the book value given that the provision is re-evaluated on an ongoing basis.

The fair value of the \$7.4 M investment in a limited partnership, long-term Gouvernement du Québec advances and common voting and non-voting shares cannot be estimated given the lack of market for this type of financial instrument.

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

The fair value of the long-term debts of \$16.3M (2005: \$15.2M) of the Financing Fund of the Gouvernement du Québec was \$16.5M (2005: \$15.8M) and was based on discounting cash flows at market rates for similar issues with the same remaining service life.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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 either joint control or significant influence by it. The Société did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

23. COMMITMENTS

- a) The unpaid balance on commitments for loans as at March 31, 2006, amounts to \$11.6M (2005: \$7.8M).
b) The minimum commitments under an operating lease for Société offices are as follows:

2007	\$619 662
2008	619 662
2009	619 662
2010	<u>464 747</u>
	<u>\$2 323 733</u>

24. CONTINGENCIES

- a) The Société guarantees the repayment of loans or debts contracted by firms from financial institutions for business financing and for the interim funding of tax credits. The maximum amounts guaranteed are as follows:

	<u>2006</u>	<u>2005</u>
Business financing*	\$10 127 751	\$10 935 600
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>12 922 360</u>	<u>14 452 277</u>
	<u>\$23 050 111</u>	<u>\$25 387 877</u>

* The accumulated allowance for losses on these loan guarantees is discussed in Note 7 of the financial statements.

** The amounts to be recovered on files that were outstanding at March 31, 2006 are \$3 828 072. Eventual losses based on the historic rate of loss for the past 5 years are estimated at \$263 368. All losses related to guarantees under this program will be reimbursed by the Gouvernement du Québec.

- b) Following the adoption of the Pay Equity Act on November 21, 1996, the Société must assess its different job categories. On the date the financial statements were prepared, the Société 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.
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.

25. COMPARATIVE FIGURES

Certain figures for the previous fiscal year were reclassified to comply with the presentation adopted for fiscal 2006.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**MANAGEMENT'S REPORT**

The financial statements of the Société de développement des entreprises culturelles du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not part of management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Jean G. Chaput
President

Pierre Major
Secretary General

Montréal, June 2, 2006

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, 2006 and the revenues, expenses and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, June 2, 2006

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
(R.S.Q., c. S-11.0102)

REVENUE AND SURPLUS
for the 15-month period ended March 31, 2006
(in thousands of dollars)

	2006 (15 months)
REVENUES	
Additional vehicle registration fees (Note 4)	34 360
Interest on accounts receivable and investments	2 942
Other interest charges	21
	<u>37 323</u>
EXPENSES	
Repayment of SAAQ computer costs	1 261
SAAQ collection fees –additional vehicle registration fees	664
Interest on accounts payable	60
	<u>1 985</u>
SURPLUS REVENUES OVER EXPENSES	
AT YEAR-END	<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, 2006
(in thousands of dollars)

	<u>2006</u>
CURRENT ASSETS	
Cash	3
Short-term investments (stock market value: 234 586)	234 513
Accounts receivable and accrued interest (Note 3)	<u>63 199</u>
	<u>297 715</u>
CURRENT LIABILITIES	
Accounts payable	1 985
Deferred proceeds (Note 4)	<u>260 392</u>
	262 377
SURPLUS (Note 5)	<u>35 338</u>
	<u><u>297 715</u></u>

COMMITMENTS (Note 6)

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 FINANCIAL STATEMENTS**

March 31, 2006

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de financement des infrastructures locales du Québec is a legal person and mandatary of the State established under the Act respecting the Société de financement des infrastructures locales du Québec (R.S.Q., c. S-11.0102) on December 17, 2004. Its mission is 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 proceeds come 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.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

Proceeds

The Société applies the deferral method to report Government of Canada transfers and contributions. Once appropriated, they are posted to proceeds for the fiscal year in which the related charges are incurred. Unappropriated transfers and contributions are posted to proceeds when received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Additional vehicle registration fees are posted to revenues based on the period covered by the fees payable.

Other proceeds are reported in the fiscal year in which the operations or facts from which they result occurred.

Charges

Charges include the cost of goods and services obtained during the fiscal year.

Financial assistance paid to municipal bodies is reported as a charge 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 recorded using the lower value method (cost – net realisation value).

3. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	<u>2006</u>
Additional vehicle registration fees receivable	62 191
Accrued interest	<u>1 008</u>
	<u>63 199</u>

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

4. DEFERRED PROCEEDS

Deferred proceeds refer to amounts received under the agreement between Ottawa 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 proceeds are as follows:

	<u>2006</u>
Government of Canada transfers	
Opening balance	
Government of Canada transfers	232 561
Transfers posted to proceeds for the fiscal year	
	<u>232 561</u>
Closing balance	
	<u>232 561</u>
Additional vehicle registration fees	
Opening balance	
Fees collected	62 191
Fees reported as proceeds	34 360
	<u>96 551</u>
Closing balance	<u>27 831</u>
Deferred proceeds	<u><u>260 392</u></u>

5. 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.

6. COMMITMENTS

At March 31, 2006, the Gouvernement du Québec made commitments under the Québec-municipalities infrastructure program (PIQM) and the Rural municipal infrastructure fund (FIMR). The amounts slated by the SOFIL to honour these commitments are 45 075 for the PIQM and 8 263 for the FIMR.

7. RELATED PARTY TRANSACTIONS

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

8. FINANCIAL INSTRUMENTS

The fair value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future, with the exception of short-term investments whose stock market value is indicated across from the balance sheet.

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société de financement des infrastructures locales du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Société 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, October 12, 2006

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, 2006 and the revenues and surplus statement for the 15-month period then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of its operations and its cash flows for the 15-month period then ended, in accordance with the accounting principles that are generally accepted in Canada.

Renaud Lachance, CA
Auditor General of Québec

Québec, October 12, 2006

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
(R.S.Q., c. S-11.03)

RESULTS AND CUMULATED SURPLUS
for the year ended August 31

	2005	2004
REVENUES		
Gouvernement du Québec operating subsidy	\$2 747 800	\$3 047 800
Other Gouvernement du Québec subsidies (Note 3)	15 925 903	16 384 388
Auditorium rentals	3 512 509	3 185 710
Ancillary operations	3 714 682	3 590 532
Rental of office and commercial space	1 754 759	1 639 477
Royalties and ticket revenue	2 072 884	1 556 845
Sponsorships and publicity	659 434	625 201
Arts accessibility program (Note 4)	47 623	90 419
Theatrical services	31 068	106 671
Financial revenue	177 223	116 467
Other revenue	847 822	796 173
	<u>31 491 707</u>	<u>31 139 683</u>
EXPENSES		
Salaries and fringe benefits	6 232 732	6 334 199
Building maintenance and repair	3 377 467	3 287 070
Electricity and heating	2 030 502	2 131 592
Equipment purchases, maintenance and repair	411 664	373 835
Professional services	545 312	384 615
Communications	1 023 978	1 022 182
Show operating costs	584 428	582 549
General administration	165 952	230 404
Insurance and taxes	7 672 878	7 655 357
Financial expenses	4 171 861	4 628 551
Depreciation of fixed assets	4 035 941	3 956 392
Arts accessibility program (Note 4)	303 122	345 895
Other expenses	223 332	119 437
Cost of customers services	1 332 612	2 282 086
	<u>32 111 781</u>	<u>33 334 164</u>
Costs recovered from customers	<u>(1 332 612)</u>	<u>(2 282 086)</u>
	<u>30 779 169</u>	<u>31 052 078</u>
SURPLUS FOR THE YEAR	712 538	87 605
CUMULATED SURPLUS, BEGINNING OF YEAR	<u>1 359 257</u>	<u>1 271 652</u>
CUMULATED SURPLUS, END OF YEAR (Note 5)	<u><u>\$2 071 795</u></u>	<u><u>\$1 359 257</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALBALANCE SHEET
as at August 31

	2005	2004
ASSETS		
Current assets		
Cash on hand	\$5 309 461	\$3 615 662
Short-term investment, at cost (interest rate of 2.45%)	1 496 492	1 497 510
Accounts receivable	679 433	448 840
Debt receivable (Note 6)	9 640	9 089
Gouvernement du Québec subsidies receivable (Note 7)	15 810 458	10 487 265
Bar inventory	28 056	28 320
Deferred costs to the arts accessibility program	3 000	91 991
Prepaid expenses	62 978	50 791
	<u>23 399 518</u>	<u>16 229 468</u>
Funds reserved for construction and retrofitting	1 297 681	293 274
Debt receivable (Note 6)	78 602	88 242
Fixed assets (Note 8)	62 216 374	64 662 537
Gouvernement du Québec subsidies receivable (Note 7)	55 883 639	68 277 891
Deferred discount and issue expenses on the long-term debt	<u>352 853</u>	<u>390 757</u>
	<u><u>\$143 228 667</u></u>	<u><u>\$149 942 169</u></u>
LIABILITIES		
Current liabilities		
Deposits - Rental and ticket sales	\$3 314 588	\$1 799 769
Accounts payable and accruals	3 150 151	3 830 445
Accrued interest	1 000 874	1 055 591
Short-term borrowings (Note 9)	5 632 952	7 708 665
Instalments on the long-term debt (Note 10)	14 738 405	9 315 623
	<u>27 836 970</u>	<u>23 710 093</u>
Deferred Gouvernement du Québec subsidies (Note 11)	55 344 934	57 523 963
Long-term debt (Note 10)	<u>50 366 226</u>	<u>59 740 114</u>
	<u>133 548 130</u>	<u>140 974 170</u>
EQUITY		
Contributed surplus (Note 12)	7 608 742	7 608 742
Cumulated surplus (Note 5)	<u>2 071 795</u>	<u>1 359 257</u>
	<u>9 680 537</u>	<u>8 967 999</u>
	<u><u>\$143 228 667</u></u>	<u><u>\$149 942 169</u></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
E. Noël Spinelli

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**CASH FLOW STATEMENT**
for the year ended August 31

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Surplus for the year	\$712 538	\$87 605
Adjustments for:		
Depreciation of fixed assets	4 035 941	3 956 392
Amortization of deferred		
Gouvernement du Québec subsidies	(4 523 181)	(4 485 209)
Amortization of premium, discounts and commissions on long-term debt	80 820	76 761
	<u>306 118</u>	<u>(364 451)</u>
Change in non-cash elements of the Working Capital Fund:		
Accounts receivable	(230 593)	1 074 342
Gouvernement du Québec subsidies receivable	99 589	87 425
Bar inventory	264	22 789
Claim receivable	9 089	8 570
Costs deferred to the arts accessibility program	88 991	(74 931)
Prepaid expenses	(12 187)	(4 081)
Rental deposits and ticket sales	1 514 819	33 213
Accounts payable and accruals	(680 294)	(592 532)
Accrued interest	(54 717)	(138 875)
	<u>734 961</u>	<u>415 920</u>
Cash flows provided by operating activities	<u>1 041 079</u>	<u>51 469</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	<u>(1 589 778)</u>	<u>(2 250 943)</u>
Cash flows used for investment activities	<u>(1 589 778)</u>	<u>(2 250 943)</u>
FINANCING ACTIVITIES		
Change in funds reserved for construction and retrofitting	(1 004 407)	107 846
Long-term debt issue	5 321 600	
Decrease in long-term debt	(9 315 622)	(3 431 933)
Short-term borrowings	(2 075 713)	2 458 243
Proceeds from Gouvernement du Québec subsidies	9 315 622	3 431 933
Cash flows provided by financing activities	<u>2 241 480</u>	<u>2 566 089</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1 692 781	366 615
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 113 172</u>	<u>4 746 557</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	<u>\$6 805 953</u>	<u>\$5 113 172</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**NOTES TO FINANCIAL STATEMENTS**

August 31, 2005

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société de la Place des Arts de Montréal was established under the Act respecting the Société de la Place des Arts de Montréal (R.S.Q., c. S-11.03). Its purpose is to operate an enterprise that disseminates the performing arts and administers the Place des Arts de Montréal or any other establishment entrusted to it by the Government.

Specifically, these activities are designed to procure a residence for major artistic organizations, promote access to various types of performing arts and foster Québec's artistic and cultural sector.

Under section 32 of its incorporating legislation, the Société finances its activities through the sums it receives and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the government decides otherwise.

The Société is a recognized registered non-profit organization within the meaning of the Income Tax Act and, as such, is eligible for the related income tax exemption.

2. ACCOUNTING POLICIES

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

Subsidy recording

Subsidies are recorded as products for the fiscal year in which the related charges were incurred.

Subsidies receivable related to fixed assets and their maintenance are recorded in the fiscal year in which the Société carries out the work or obtains the financing entitling it to these subsidies.

Deferred costs to the arts accessibility program

All deferred costs are accumulated in the balance sheet during the fiscal year in which they are incurred and are charged to results for the period the performance runs in de proportion to the performances given during the year.

Bar inventory

Bar inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

Fixed assets

Fixed assets are valued at cost, which includes materials, direct labour, direct costs and financing costs during the work. Fixed assets are depreciated over their service life according to the straight-line method as follows:

Fixed 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 issue expenses on the long-term debt

Premium, discount and issue expenses on the long-term debt are deferred and amortized according to the straight-line method over the remaining term of the borrowings.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

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

2. ACCOUNTING POLICIES (cont'd)
Cash and cash equivalents

Cash and cash equivalents consist of bank balances including bank overdrafts and short-term investments maturing within three months.

Pension plans

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

3. OTHER GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2005	2004
Interest on bonds and borrowings on notes	\$4 041 559	\$4 494 136
Compensation in lieu of taxes	7 361 162	7 351 101
Additional contribution for vacation time and sick leave		53 942
Amortization of deferred Gouvernement du Québec subsidies	4 523 182	4 485 209
	<u>\$15 925 903</u>	<u>\$16 384 388</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 to the arts accessibility program is as follows:

	2005	2004
Proceeds		
Ticket sales	\$36 309	\$52 377
Sponsorship		35 493
Revenue from ancillary services	11 314	2 549
	<u>47 623</u>	<u>90 419</u>
Charges		
Wages and fringe benefits	24 101	32 978
Artists' honoraria, artistic direction and programmer support	225 314	188 814
Research	20 591	65 662
Activities	21 503	1 290
Operating costs	6 137	14 937
Administrative expenses		13 382
Equipment purchase and rental	5 476	28 832
	<u>303 122</u>	<u>345 895</u>
Net contribution	<u>\$(255 499)</u>	<u>\$(255 476)</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**5. CUMULATED SURPLUS**

The Société uses its cumulated surplus by investing in public development projects and diversifying its programming with a view to increasing accessibility of the arts, in conjunction with its resident organizations and other partners.

6. DEBT RECEIVABLE

	2005	2004
Debt receivable, at the rate of 5.9% repayable in monthly payments of \$1 216, renewable in February 2006 and maturing in February 2013.	\$88 242	\$97 331
Cash receivable in the coming fiscal year	(9 640)	(9 089)
	<u>\$78 602</u>	<u>\$88 242</u>

The amount of cash receivable in the coming 5 fiscal years is as follows:

2006	\$9 640
2007	10 225
2008	10 844
2009	11 502
2010	12 199

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt and to short-term borrowings and to reimbursement of capital on the long-term debt in the next fiscal year.

The long-term portion represents the Gouvernement du Québec's total commitments for fixed assets and their maintenance minus capital repayments on the long-term debt already made and to be made in the next fiscal year.

The subsidies are cashable in keeping with the related long-term debt payments.

8. FIXED ASSETS

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Fixed assets				
Land	\$7 608 742		\$7 608 742	\$7 608 742
Building	100 939 423	\$57 387 332	43 552 091	45 548 553
Building improvements and major repairs	69 050 344	60 186 609	8 863 735	9 305 744
Stage equipment and accessories	2 324 771	1 770 161	554 610	642 825
Office furniture and equipment	281 700	108 188	173 512	199 714
Other equipment	1 124 316	915 000	209 316	228 930
Computer hardware	666 494	581 971	84 523	162 756
	<u>181 995 790</u>	<u>120 949 261</u>	<u>61 046 529</u>	<u>63 697 264</u>
Intangible assets				
Computer software	<u>1 631 490</u>	<u>461 645</u>	<u>1 169 845</u>	<u>965 273</u>
	<u>\$183 627 280</u>	<u>\$121 410 906</u>	<u>\$62 216 374</u>	<u>\$64 662 537</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**9. SHORT-TERM BORROWINGS**

The Gouvernement du Québec has authorized the Société to contract the following borrowings related to fixed assets maintenance:

	<u>2005</u>	<u>2004</u>
Term bill renewable at September 30, 2005, authorized by order-in-council for a maximum of \$2 553 200 bearing interest at a rate of 2.71%	\$2 237 362	\$1 785 996
Term bill renewable at September 30, 2005, authorized by order-in-council for a maximum of \$2 835 200 bearing interest at a rate of 2.71%	2 174 042	1 224 351
Term bill renewable at September 30, 2005, authorized by order-in-council for a maximum of \$2 843 300 bearing interest at a rate of 2.71%	1 221 548	401 269
Term bill renewable bearing interest at a rate of 2.06%	<u>4 297 049</u>	<u>4 297 049</u>
	<u>\$5 632 952</u>	<u>\$7 708 665</u>

The maximum amount authorized by the Gouvernement du Québec for short-term borrowings related to assets maintenance is \$8 231 700.

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

	<u>2005</u>	<u>2004</u>
Bonds guaranteed by the Gouvernement du Québec:		
- 6.25% sinking fund bonds maturing June 1, 2006	\$815 000	\$1 584 000
- 5.75% sinking fund bonds maturing April 15, 2005		1 218 000
- 12.25% series bonds		2 000 000
- 11.25%, maturing February 16, 2008	<u>1 500 000</u>	<u>1 500 000</u>
	2 315 000	6 302 000
Borrowings on notes from the Financing Fund of the Gouvernement du Québec 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	30 502 042	33 043 879
- 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	12 407 525	13 293 777
- 4.515% (effective rate of 4.705%), repayable in annual principal instalments of \$483 450 up to October 1, 2007	<u>1 450 350</u>	<u>1 933 800</u>
Amounts carried forward	<u>\$46 674 917</u>	<u>\$54 573 456</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**10. LONG-TERM DEBT** (cont'd)

	2005	2004
Amounts brought forward	\$46 674 917	\$54 573 456
- 5.481% (effective rate of 5.648%), repayable in annual principal instalments of \$93 451 up to October 1, 2012	747 612	841 063
- 6.77% (effective rate of 6.902%), repayable in one instalment of \$2 026 667 on February 16, 2006	2 026 667	2 229 333
- 6.96% (effective rate of 6.972%), repayable in one instalment of \$1 620 600 on February 16, 2006	1 620 600	1 890 700
- 5.673% (effective rate of 5.795%), repayable in one instalment of \$5 568 913 on April 11, 2006	5 568 913	6 075 178
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$88 625 up to October 1, 2013	797 626	886 252
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$255 975 up to October 1, 2013	2 303 780	2 559 755
- 4.937% (effective rate of 5.064%), repayable in annual principal instalments of \$357 634 up to July 16, 2020	5 364 516	
	<u>65 104 631</u>	<u>69 055 737</u>
Payments due in the next fiscal year	<u>14 738 405</u>	<u>9 315 623</u>
	<u>\$50 366 226</u>	<u>\$59 740 114</u>

Payments on the principal of the long-term debt over the next five fiscal years under call features and amortization clauses for the bonded debt are as follows:

2006	\$14 738 405
2007	4 707 225
2008	6 207 225
2009	4 223 775
2010	4 223 775

11. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2005	2004
Opening balance	\$57 523 963	\$59 254 081
Gouvernement du Québec commitments regarding fixed assets and their maintenance	2 301 236	2 637 912
Premium on long-term debt issue	42 916	117 179
Amortization of deferred subsidies	<u>(4 523 181)</u>	<u>(4 485 209)</u>
Closing balance	<u>\$55 344 934</u>	<u>\$57 523 963</u>

12. CONTRIBUTED SURPLUS

This item corresponds to property costs.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**13. CASH FLOWS**

Cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2005	2004
Cash on hand	\$5 309 461	\$3 615 662
Short-term investment, at cost (interest rate of 2.45%)	1 496 492	1 497 510
	<u>\$6 805 953</u>	<u>\$5 113 172</u>

Interest paid to the Société during the year amounts to \$4 145 759 (2004: \$4 690 663).

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. The Société has commercial rental income of a \$746 666 (2004: \$732 744) with a related company. These transactions are not shown separately in the financial statements.

15. FUTURE FRINGE BENEFITS**Pension plans**

Some of the staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (RRPE) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

Other Société staff members, namely, stagehands and dressers, contribute to two defined-benefit plans.

The Société's contributions charged to the year-end statement amount to \$230 368 (2004: \$249 432). The Société's liability towards these Government plans is restricted to its contributions as an employer

Provision for sick leave and vacation time included in accounts payable and accrued liability

	2005			2004
	Sick leave	Vacation leave	Total	Total
Opening balance	\$201 526	\$295 020	\$496 546	\$498 959
Charge for the year	127 196	259 276	386 472	530 147
Benefits paid during the year	<u>(121 151)</u>	<u>(257 698)</u>	<u>(378 849)</u>	<u>(532 560)</u>
Closing balance	<u>\$207 571</u>	<u>\$296 598</u>	<u>\$504 169</u>	<u>\$496 546</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**16. COMMITMENTS**

The Société is committed to long-term contracts for goods and services, maturing on various dates up to May 31, 2017 and to construction work on fixed assets.

Minimum future payments are as follows:

2006	\$2 304 646
2007	213 248
2008	245 937
2009	99 922
2010	72 878
2011 and thereafter	186 691
	<u>\$3 123 322</u>

17. CONTINGENCIES

The Société is also party to various claims and legal proceedings that have cropped up in the normal course of business.

The Société is not able to predict the outcome of these disputes. To the extent that it can be determined, these financial statements include provisions to this effect.

18. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Long-term debt

At August 31, 2005, the fair value of the long-term debt of \$65 104 631 (2004: \$69 055 737) was \$70 362 721 (2004: \$73 494 082), given the discounting of cash flows at the market rate for securities of a similar nature as to their maturity date and interest rate.

The fair value of short-term borrowings at August 31, 2005 in the amount of \$5 632 952 (2004: \$7 708 665) 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 \$71 694 097 (2004: \$78 765 156) is \$76 952 187 (2004: \$83 203 502).

Other assets and liabilities

The fair value of the cash, short-term investment, accounts receivable, prepaid expenses, deposits – rentals and ticket sales and suppliers and accrued expenses is equal to their book value, given that they mature in the near future.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société de la Place des Arts de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Marie Lavigne
Director General

André Huberdeau, MBA
Director Administration

Montréal, November 1, 2005

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, 2005 and the results and cumulated surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 1, 2005

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
(R.S.Q., c. S-11.011)

REVENUES AND EXPENSES
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u> (Note 3)
REVENUES		
Fees collected on vehicle registration and driver's licence transactions	90 193	90 876
Road checks		
Gouvernement du Québec contribution	55 578	55 086
Other revenues	1 969	3 491
Gouvernement du Québec contribution for funding programs for handicapped persons (Note 7)	8 370	9 817
Fees collected for management of unpaid fines (Note 8)	6 161	3 454
Revenues, excluding interest (Note 4)	2 645	
Other	<u>1 560</u>	<u>836</u>
	<u>166 476</u>	<u>163 560</u>
EXPENSES		
Administrative expenses (Note 5)	168 385	167 992
Amortization (Note 6)	25 006	22 842
Programs for handicapped persons (Note 7)	8 370	9 817
Management of unpaid fines (Note 8)	6 161	3 454
Contribution to funding of an agency (Note 9)	<u>525</u>	<u>444</u>
	<u>208 447</u>	<u>204 549</u>
INSUFFICIENT REVENUES OVER EXPENSES	<u>(41 971)</u>	<u>(40 989)</u>

CUMULATED DEFICIT
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPENING BALANCE		
Previously established balance	(25 920)	16 130
Adjustments		
Computer development (Note 3)	(1 134)	(2 243)
Provision for fringe benefits and amounts owed to employees (Note 3)	<u>(1 891)</u>	<u>(1 843)</u>
Adjusted balance	<u>(28 945)</u>	<u>12 044</u>
Deficit revenue over expenditure	<u>(41 971)</u>	<u>(40 989)</u>
CLOSING BALANCE	<u>(70 916)</u>	<u>(28 945)</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

BALANCE SHEET
as at December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u> (Note 3)
ASSETS		
Cash on hand	2 464	7 004
Accounts receivable	22 515	11 614
Insurance Fund receivable, bearing interest at the credit line rate	169 653	205 083
Fixed assets (Note 10)	44 764	36 397
Intangible assets (Note 11)	<u>74 928</u>	<u>81 282</u>
	<u>314 324</u>	<u>341 380</u>
LIABILITIES AND CUMULATED DEFICIT		
LIABILITIES		
Credit line with the Caisse de dépôt et placement du Québec (Note 12)	129 561	146 367
Accounts payable and accruals		
Gouvernement du Québec	152 689	126 680
Other	41 408	36 962
Provision for fringe benefits and amounts owed to employees (Note 13)	<u>61 582</u>	<u>60 316</u>
	385 240	370 325
CUMULATED DEFICIT	<u>(70 916)</u>	<u>(28 945)</u>
	<u>314 324</u>	<u>341 380</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
CASH FLOW

for the year ended December 31, 2005

(in thousands of dollars)

	2005	2004
OPERATING ACTIVITIES		
Fees collected on vehicle registration and driver's licence transactions	90 162	90 877
Road checks		
Gouvernement du Québec contribution received	65 006	51 654
Other revenues		3 491
Gouvernement du Québec contribution for funding programs for handicapped persons	18 187	
Fees collected for the management of unpaid fines	5 991	
Revenues, excluding investments		
Current revenues collected	294	
Interest paid	(736)	
Other income collected	1 821	884
Administrative expenses paid by the Société	(283 764)	(276 548)
Administrative expenses reimbursed by the Insurance Fund	105 886	117 848
Expenses paid for programs for handicapped persons	(8 339)	(9 635)
Fees paid for the management of unpaid fines	(5 399)	(3 072)
Participation paid to organization funding	(461)	
	<u>(11 352)</u>	<u>(24 501)</u>
Trusteeship for the Insurance Fund		
Contributions – vehicle registration		
Collected for the Insurance Fund	562 129	549 505
Remitted to the Insurance Fund	(568 706)	(549 505)
Contributions – drivers' licences		
Collected for the Insurance Fund	126 280	126 604
Remitted to the Insurance Fund	(127 768)	(126 604)
	<u>(8 065)</u>	
Mandates conferred by the Gouvernement du Québec		
Registration and driver's licence fees		
Collected for the Gouvernement du Québec	776 023	765 895
Remitted to the Gouvernement du Québec	(803 507)	(726 356)
Collected for the Société de financement des infrastructures locales	40 525	
Collected for other governments	39 000	36 680
Remitted to other governments	(39 000)	(37 365)
Taxes		
Collected for the Gouvernement du Québec	770 638	784 053
Remitted to the Gouvernement du Québec	(774 551)	(785 700)
Motorists' contribution to mass transit		
Collected for the Gouvernement du Québec	67 671	66 660
Remitted to the Gouvernement du Québec	(67 543)	(67 123)
Parking stickers		
Collected for the Gouvernement du Québec	513	573
Remitted to the Gouvernement du Québec	(1 086)	
	<u>8 683</u>	<u>37 317</u>
Cash flows related to operating activities		
(Amounts carried forward)	<u>(10 734)</u>	<u>12 816</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

CASH FLOWS (cont'd)
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
Cash flows related to operating activities (Amounts brought forward)	<u>(10 734)</u>	<u>12 816</u>
INVESTMENT ACTIVITIES		
Disbursement for acquisition of fixed assets	(18 664)	(15 030)
Proceeds from the disposal of fixed assets	238	88
Disbursement for acquisition of intangible assets	<u>(17 141)</u>	<u>(23 720)</u>
Cash flows related to investment activities	<u>(35 567)</u>	<u>(38 662)</u>
FINANCING ACTIVITIES		
Reimbursements from (advances to) the Insurance Fund	<u>58 567</u>	<u>(104 335)</u>
Cash flows related to financing activities	<u>58 567</u>	<u>(104 335)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12 266	(130 181)
OPENING INSUFFICIENCY OF CASH AND CASH EQUIVALENTS	<u>(139 363)</u>	<u>(9 182)</u>
CLOSING INSUFFICIENCY OF CASH AND CASH EQUIVALENTS (Note 12)	<u>(127 097)</u>	<u>(139 363)</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de l'assurance automobile du Québec (Société) is a legal person established in the public interest within the meaning of the Civil Code of Québec under the Act respecting the Société de l'assurance automobile du Québec (R.S.Q., c. S-11.011).

Purpose

The Société's purpose is to:

- act as a trustee to administer the Québec Automobile Insurance Fund (Insurance Fund);

The Insurance Fund is a social utility trust within the meaning of the Québec Civil Code, which was created on January 1, 2004 through the transfer of the Société's assets and whose funds are slated for compensation for bodily damages as stipulated in the Automobile Insurance Act, for the material damages provided for in Title IV of this Act and for highway safety promotion and the related prevention;
- administer the Highway Safety Code, in particular with respect to the registration of road vehicles, permits and licences, vehicle safety standards and obligations in the event of an accident;
- where highway safety is concerned:
 - ensure the monitoring of and control over highway transportation of goods and passengers on highways and in carrier facilities, in particular with respect to the application of the provisions:
 - of the Highway Safety Code;
 - the legislative or regulatory pertaining to highway transportation which are under the responsibility of the departments and agencies designated by the Government, to the extent and on the conditions determined by agreement entered into pursuant to Title VIII.2 of the Highway Safety Code;
 - assume operational coordination in matters pertaining to the control of highway transportation between the departments and agencies concerned and to promote stricter road checks throughout Québec;
- fulfil any other mandate that might be given under the Act or through an agreement with the Government, one of its departments or agencies.

Collection powers

Under agreements or regulations, the Société collects:

- for highway network 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 administrations and US states, 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(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:

BALANCE SHEET

	2005	2004
ASSETS		
Fund entrusted to the Caisse de dépôt et placement du Québec	7 563 714	6 853 125
Other assets	101 438	90 025
	<u>7 665 152</u>	<u>6 943 150</u>
LIABILITIES		
Obligations to accident victims – Actuarial liabilities	7 514 182	6 989 048
Other liabilities	548 941	571 053
	<u>8 063 123</u>	<u>7 560 101</u>
CUMULATED DEFICIT	<u>(397 971)</u>	<u>(616 951)</u>
	<u>7 665 152</u>	<u>6 943 150</u>

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

a) Financial instruments

Cash, accounts receivable, amounts receivable from the Insurance Fund, the credit line, receivables and accrued expenses are recorded at fair value, which is equivalent to their book value given that they mature in the near future.

b) Fixed assets

Fixed assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	Method	Useful 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

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

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

	<u>Method</u>	<u>Useful life</u>
Data processing equipment and operating software	Straight-line	Maximum 5 years
Highway monitoring stations		
Buildings	Straight-line	10 years
Site development	Straight-line	20 years
Equipment	Summary-of-the-years' digits	Maximum 10 years

The service life of site development for highway monitoring stations was revised to 20 years as of 2005. It had been 10 years.

c) Intangible assets

Intangible assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	<u>Method</u>	<u>Useful life</u>
Computer systems development	Straight-line	Maximum 7 years
Application software	Straight-line	Maximum 5 years

d) Pension plans

Société employees contribute to Gouvernement du Québec interenterprise defined-benefit plans. The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans. Since the Société lacks sufficient information to use the accounting procedure the defined-benefits plans, it uses the accounting procedure for defined-condition plans.

e) Cash and cash equivalents

The Société's policy consists in presenting under "Cash and cash equivalents" bank balances, including bank overdrafts whose balances often fluctuate between overdraft and available, and the line of credit used to cover monthly cash shortages.

3. CHANGE IN ACCOUNTING POLICIES

This fiscal year, the Société implemented the following changes in accounting policies:

Computer development

The financial statements for the fiscal year ended December 31, 2004 were adjusted to exclude from the item "Intangible assets" the cost of computer development linked to the rollover to the year 2000.

This adjustment decreases the following items of the financial statements for the fiscal year ended December 31:

	<u>2005</u>	<u>2004</u>
Revenue and expenditure		
Revenue		
Amortization	(741)	(1 109)
Deficit revenue over expenditure	(741)	(1 109)

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

3. CHANGES IN ACCOUNTING POLICIES (cont'd)**Computer development (cont'd)**

	<u>2005</u>	<u>2004</u>
Balance sheet		
Assets		
Intangible assets	(393)	(1 134)
Accumulated deficit	(393)	(1 134)

Provision for fringe benefits and amounts owed to employees
(previously "Provision for sick leave and vacation time")

The provision for sick leave and vacation time was changed to include fringe benefits granted employees. In the past, these expenses were posted to operations for the fiscal year in which the employees enjoyed these benefits.

The retroactive application of this change increases (decreases) the following items of the financial statements ended December 31:

	<u>2005</u>	<u>2004</u>
Revenues and expenses		
Expenses		
Administrative expenses	(106)	48
Insufficient revenues over expenses	(106)	48
Balance sheet		
Assets		
Owed by the Insurance Fund	(36)	31
Liabilities		
Provision for fringe benefits and amounts owed to employees	1 749	1 922
Accumulated deficit	(1 785)	(1 891)

4. REVENUES, EXCLUDING INTEREST

	<u>2005</u>	<u>2004</u>
Revenues – Interest posted to the Insurance Fund	3 087	820
Interest income on bank balances	294	
Interest charges on credit line	(736)	(820)
	<u>2 645</u>	<u></u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

5. ADMINISTRATIVE EXPENSES

	Société administrative expenses					2004
	2005					
	Program for handicapped persons	Management of unpaid fines	Management of highway network access	Road checks	Total ¹	Total ¹
Salaries and fringe benefits	1 125	2 393	67 246	34 254	101 500	105 625
Travelling expenses	6	41	921	1 487	2 408	2 377
Agents' remuneration		56	14 207		14 207	13 475
Administrative and professional services	140	301	8 876	2 520	11 396	12 330
Communications	66	2 004	5 858	2 495	8 353	8 331
Information and advertising	1	5	98	263	361	296
Furniture, fixtures and equipment	10	14	1 662	760	2 422	1 493
Maintenance	7	15	678	2 511	3 189	2 968
Rent, taxes and electricity	29	57	5 555	2 001	7 556	7 127
Data processing and office automation equipment	5	10	315	181	496	982
Rental and maintenance of data processing and office automation equipment	92	208	6 938	2 171	9 109	9 506
Printing, supplies and other expenses	40	69	6 437	2 308	8 745	9 158
Loss on obsolete intangible assets	25	101	6 132	854	6 986	
User costs of fixed assets attributed to the Insurance Fund			(11 379)		(11 379)	(8 629)
Head office user fees	48	125	2 364	672	3 036	2 953
	<u>1 594</u>	<u>5 399</u>	<u>115 908</u>	<u>52 477</u>	<u>168 385</u>	<u>167 992</u>

1 The total excludes the amounts for programs for handicapped persons and the management of unpaid fines. These amounts are presented in notes 7 and 8 respectively.

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 results in the following:

	2005	2004
Société administrative expenses	168 385	167 992
Administrative expenses of programs for handicapped persons	1 594	1 640
Administrative expenses for the management of unpaid fines	5 399	3 072
Administrative expenses attributed to the Insurance Fund	<u>117 334</u>	<u>114 802</u>
Total administrative expenses paid by the Société	<u>292 712</u>	<u>287 506</u>

The administrative expenses 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

6. AMORTIZATION

	2005				2004
	Program for handi- capped persons	Manage- ment of unpaid fines	Manage- ment of highway network access	Road checks	Total ¹
Amortization of fixed assets	37	89	6 141	3 313	9 454
Amortization of intangible assets	135	673	13 795	1 757	15 552
	<u>172</u>	<u>762</u>	<u>19 936</u>	<u>5 070</u>	<u>25 006</u>
					<u>22 842</u>

1 The total excludes the amounts for programs for handicapped persons and the management of unpaid fines. These amounts are presented in notes 7 and 8 respectively.

7. PROGRAMS FOR HANDICAPPED PERSONS

	2005		2004
	Vehicle adaptation	Parking stickers	Total
Subsidies paid for vehicle adaptation	6 604		6 604
Administrative expenses (Note 5)	442	1 152	1 594
Amortization (Note 6)	14	158	172
	<u>7 060</u>	<u>1 310</u>	<u>8 370</u>
			<u>9 817</u>

The vehicle adaptation program is entrusted to the Société under an agreement with the Ministère des Transports, in keeping with section 16.4 of the Act respecting the Société de l'assurance automobile du Québec (S.Q., c. S-11.011). The issuing of parking stickers for these persons is provided for under section 11 of the Highway Safety Code (R.S.Q., c. C-24.2).

Funding for the vehicle adaptation program and parking sticker issuing is defined in an agreement between the Société and the Ministère des Transports.

8. MANAGEMENT OF UNPAID FINES

	2005	2004
Administrative expenses (Note 5)	5 399	3 072
Amortization (Note 6)	<u>762</u>	<u>382</u>
	<u>6 161</u>	<u>3 454</u>

Section 194 of the Highway Safety Code stipulates that the Société shall limit persons' or vehicles' road access when collectors (section 364 of the Code of Penal Procedure (c. C-25.1), primarily municipalities, inform the Société that the defendant has failed to pay unpaid fines.

Funding for the collection of unpaid fines is based on the provisions of sections 621 and 648.2 of the Highway Safety Code (R.S.Q., c. C-24.2) and the Regulation respecting rates for the application of section 194 of the Highway Safety Code (O.C. 414-2004).

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

9. CONTRIBUTION TO FUNDING OF AN AGENCY

The contribution to funding the Tribunal administratif du Québec is provided for in section 97 of the Act respecting administrative justice (R.S.Q., c. J-3). An annual Order-in-Council sets each organization's share.

10. FIXED ASSETS

	2005		2004
	Cost	Accumulated depreciation	Unamortized cost
Land	1 637		1 637
Building	3 892	1 288	2 604
Head office furnishings	11 212	11 212	
Equipment	5 083	3 745	1 338
Automotive equipment	11 646	6 469	5 177
Photography station	12 180	12 130	50
Data processing equipment and operating software	63 742	47 657	16 085
Highway carrier monitoring weigh station ¹	21 939	4 066	17 873
	<u>131 331</u>	<u>86 567</u>	<u>44 764</u>
			<u>36 397</u>

1 Highway monitoring stations valued at \$4 689 000 were not yet operational at December 31, 2005. Consequently, they were not amortized.

11. INTANGIBLE ASSETS

	2005		2004
	Cost	Accumulated depreciation	Unamortized cost
Computer systems development ¹	124 360	51 164	73 196
Application software	3 056	1 324	1 732
	<u>127 416</u>	<u>52 488</u>	<u>74 928</u>
			<u>81 282</u>

1 Computer developments worth \$11 124 000 (2004: \$13 439 000) were in progress at December 31, 2005 and were not amortized. Apart from the changes in accounting policies disclosed in Note 3, computer developments worth \$10 604 000 and cumulated amortization of \$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 \$7 112 000 was reported under administrative expenses.

12. CREDIT LINE WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

The Société obtained a \$200-million line of credit with the Caisse to offset monthly cash shortages. It bears interest based on the rate yielded by the demand deposit account set daily plus 0.05%. The interest rate was 3.3% at December 31, 2005 (2004: 2.57%). This credit line expires on December 31, 2008.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

13. PROVISION FOR FRINGE BENEFITS AND AMOUNTS OWED TO EMPLOYEES

(previously Provision for sick leave and vacation time)

	2005			2004	
	Sick leave	Vacation time	Other fringe benefits and amounts owing ¹	Total	Total
Opening balance	40 517	17 877	1 922	60 316	57 648
Plus					
Charges for the year	9 049	15 147	3 411	27 607	28 803
Less					
Benefits paid during the year	8 091	14 666	3 584	26 341	26 135
Closing balance	41 475	18 358	1 749	61 582	60 316

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 banks of overtime and deferred paid holidays.

14. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following items in the balance sheet:

	2005	2004
Cash on hand	2 464	7 004
Line of credit with the Caisse de dépôt et placement du Québec	(129 561)	(146 367)
Deficiency in cash and cash equivalents	(127 097)	(139 363)

During the year, the Société disbursed \$18 664 000 (2004: \$15 030 000) for the acquisition of fixed assets and \$17 141 000 (2004: \$23 720 000) for intangible assets. It posted losses of \$537 000 (2004: \$31 000) on the disposal of fixed assets and \$7 112 000 (2004: \$390 000) for intangible assets. At December 31, 2005, the accounts payable and accrued expenses related to fixed assets and intangible assets totalled \$5 769 000 (2004: \$4 171 000). The amount owed by the Insurance Fund for fixed assets totalled \$781 000 (2004: \$439 000).

15. COMMITMENTS
Rental contracts

The Société is committed under various premises rental contracts for a minimum amount estimated at \$32 189 000 at December 31, 2005. These contracts are in effect up to 2014 and break down as follows:

2006	\$8 073 000
2007	7 461 000
2008	5 330 000
2009	4 378 000
2010	3 488 000

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2005

(in thousands of dollars)

15. COMMITMENTS (cont'd)**Contracts for computer and other services**

The Société is committed under various contracts for computer and other services for an amount estimated at \$40 578 000 on December 31, 2005. These contracts are in effect up to 2010 and break down as follows:

2006	\$21 644 000
2007	12 661 000
2008	4 693 000
2009	979 000
2010	545 000

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, 2005.

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). Interenterprise plans are defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$7 857 000 (2004: \$5 380 000). 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 at the usual commercial conditions. Recorded at exchange value, these related party transactions are presented in the body of the financial statements.

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

19. COMPARATIVE FIGURES

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

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société de l'assurance automobile du Québec (Société) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. La direction de la vérification interne carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

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

The board of directors oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, reviews the financial statements and recommends their approval to the board of directors.

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

John Harbour, FCA
President and Chief Executive Officer

André Legault
Vice-President, Administration and
Finance

Québec, March 24, 2006

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 (Société) as at December 31, 2005 and the revenues and expenses, cumulated deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 24, 2006

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
(R.S.Q., c. S-13)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
fiscal year ended March 25, 2006
(in thousands of dollars)

	2006	2005
GROSS SALES (Note 6)	2 765 309	2 544 715
Taxes, duties, discounts and other (Note 6)	592 191	557 811
NET SALES (Note 6)	2 173 118	1 986 904
OPERATING EXPENSES		
Cost of products sold (Note 6)	1 058 939	991 397
Selling and marketing, distribution and administrative expenses	403 408	392 630
	1 462 347	1 384 027
EARNINGS BEFORE FINANCING EXPENSES, DEPRECIATION, OTHER INCOME (EXPENSES) AND INCOME TAX EXPENSES	710 771	602 877
FINANCING EXPENSES AND DEPRECIATION		
Financing expenses (Note 7)	6 436	7 798
Depreciation of fixed assets	47 006	48 444
Depreciation of the building rented under a capital lease	407	407
Depreciation of other assets	239	245
	54 088	56 894
EARNINGS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX EXPENSES	656 683	545 983
OTHER INCOME (EXPENSES)		
Share in the earnings of a company subject to significant influence		(462)
Amortization of the deferred gain on the disposal of assets to a joint venture	270	270
Minority interest in the earnings of a joint venture subsidiary		(8)
	270	(200)
EARNINGS BEFORE INCOME TAXES	656 953	545 783
INCOME TAXES		
Current	15	18
Future	(11)	14
	4	32
NET EARNINGS	656 949	545 751
RETAINED EARNINGS AT BEGINNING OF YEAR	5 611	4 860
DIVIDEND	(657 000)	(545 000)
RETAINED EARNINGS AT END OF YEAR	5 560	5 611

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

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED BALANCE SHEET**

March 25, 2006

(in thousands of dollars)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents (Note 20)	32 540	46 282
Accounts receivable (Note 8)	58 216	59 219
Inventory (Note 9)	265 235	249 967
Prepaid expenses	17 308	16 772
	<u>373 299</u>	<u>372 240</u>
Debentures, 8.66%		2 000
Fixed assets (Note 10)	267 933	290 472
Building rented under a capital lease (Note 11)	4 477	4 884
Consolidated goodwill	12 302	12 388
Other assets (Note 12)	<u>806</u>	<u>847</u>
	<u>658 817</u>	<u>682 831</u>
LIABILITIES		
Current liabilities		
Bank loans (Note 13)	196 396	267 930
Suppliers and other creditors (Note 14)	256 497	266 817
Dividend	<u>124 000</u>	<u>65 000</u>
	576 893	599 747
Debentures, 8.66%, maturing July 1, 2009 (Note 15)	1 500	2 000
Capital lease obligation (Note 16)	7 007	7 996
Deferred gain on disposal of the assets to a joint venture (Note 17)	3 487	3 757
Accrued benefit liability – cumulative sick leave credits (Note 18)	33 104	32 752
Accrued benefit liability – retirement plan (Note 18)	1 237	900
Future income taxes payable by the joint venture subsidiary	29	40
Minority interest in the equity capital of a joint venture subsidiary		<u>28</u>
	<u>623 257</u>	<u>647 220</u>
SHAREHOLDER'S EQUITY		
Equity / Share capital		
Authorized, issued and paid		
300 000 shares valued at \$100 each	30 000	30 000
Retained earnings	<u>5 560</u>	<u>5 611</u>
	<u>35 560</u>	<u>35 611</u>
	<u>658 817</u>	<u>682 831</u>

CONTINGENCIES AND COMMITMENTS (Note 19)

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

On behalf of the Board of Directors,
 Michèle Thivierge, President of the Board of Directors
 Chantal Bélanger, Audit Committee Chairperson

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED CASH FLOWS**

fiscal year ended March 25, 2006

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net earnings	656 949	545 751
Non-cash items:		
Depreciation	47 652	49 096
Loss on sale of fixed assets	182	196
Share in the earnings of a company subject to significant influence		462
Amortization of the deferred gain on the disposal of assets to a joint venture	(270)	(270)
Minority interest in the earnings of a joint venture subsidiary		8
Future income taxes	(11)	14
Expenses relating to sick leave credits	2 405	(369)
Expenses relating to the retirement plan	337	170
	<u>707 244</u>	<u>595 058</u>
Net change in non-cash items of working capital (Note 20)	(25 723)	135 439
Use of cumulative sick leave credits	<u>(2 053)</u>	<u>(2 964)</u>
Cash flows provided from operating activities	<u>679 468</u>	<u>727 533</u>
INVESTMENT ACTIVITIES		
Business acquisition (Note 5)	58	(1 458)
Acquisition of additional interest in a company subject to significant interest (Note 17)		(400)
Debentures receivable	2 500	500
Acquisition of fixed assets	(24 863)	(32 183)
Sale of fixed assets	214	2 712
Other assets	<u>(198)</u>	<u>(90)</u>
Cash flows used for investment activities	<u>(22 289)</u>	<u>(30 919)</u>
FINANCING ACTIVITIES		
Variation in bank loans	(71 534)	(44 570)
Debentures receivable	(500)	(500)
Reimbursement of the capital lease obligation	(887)	(795)
Dividend	<u>(598 000)</u>	<u>(558 000)</u>
Cash flows used for financing activities	<u>(670 921)</u>	<u>(603 865)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(13 742)</u>	<u>92 749</u>
CASH AND CASH EQUIVALENTS AT THE START OF THE FISCAL YEAR	<u>46 282</u>	<u>(46 467)</u>
CASH AND CASH EQUIVALENTS AT END OF THE FISCAL YEAR	<u><u>32 540</u></u>	<u><u>46 282</u></u>

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

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

March 25, 2006

(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 25, 2006 and March 26, 2005, each consist of 52 weeks of operations.

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 must be applied to annual or interim financial statements issued on or after November 1, 2004. The amended guideline has no impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Fiscal year ended March 26, 2005***Revenue recognition***

In December 2003, the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) published the Abstract of Issues Discussed no. 141 (EIC-141), entitled "Revenue Recognition", which provides interpretative guidance on the application of Section 3400 of the CICA Handbook entitled "Revenue". Specifically, EIC-141 states the criteria to be respected in order that the recognition of revenue be deemed to have occurred. The SAQ applied the guidelines of EIC-141 prospectively as of March 28, 2004, and their application had no major impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Hedging Relationships

In December 2001, the CICA published Accounting Guideline AcG-13, "Hedging Relationships", and in June 2002, EIC-128, "Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments". AcG-13 deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying the principles of hedge accounting. Under these guidelines, the information relating to hedging relationships must be documented, and the effectiveness of the hedge must be demonstrated and documented. If the criteria of AcG-13 are not complied with, the derivative instrument must be recognized in accordance with the guidelines of EIC-128, which stipulates that a derivative instrument that does not meet the conditions of hedge accounting outlined in AcG-13 must be recognized in the balance sheet at fair value, and that the variations in the fair value must be recognized in the income statement for the fiscal year.

The SAQ adopted the recommendations of AcG-13 and EIC-128 at the start of the fiscal year 2005 and concluded that its forward exchange contract did not meet the hedge accounting conditions outlined in AcG-13. Consequently, the SAQ recognizes its forward exchange contracts at fair value. The fair value is re-evaluated each quarter and a gain or loss is recognized in the consolidated income statement. For the fiscal year ended March 26, 2005, the sum of approximately \$100 000 is included in the operating expenses, representing the fair value of the out-of-the-money forward exchange contracts at the end of the fiscal year.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

3. CHANGE TO ACCOUNTING POLICIES (cont'd)**Fiscal year ended March 26, 2005 (cont'd)*****Employee future benefits***

In January 2004, the CICA modified the recommendations contained in Section 3461 of the CICA Handbook, entitled "Employee Future Benefits". Section 3461 requires additional disclosures about the assets, cash flows and net periodic benefit cost of defined benefit pension plans and other employee future benefit plans. These recommendations have no impact on the measurement of these plans. The SAQ adopted the new recommendations during the fiscal year ended March 26, 2005, and the additional required information is presented in Note 18.

Retirement Obligations

In March 2003, the CICA published Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations", the recommendations of which were applied by the SAQ at the start of the 2005 fiscal year. The Section establishes the standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. It applies to the legal obligations related to the retirement of long-term intangible assets resulting from the acquisition, construction, layout or regular operations. The new recommendations stipulate that the fair value of a liability be recognized with respect to the obligations related to asset retirement during the fiscal year in which the obligations occur, if a reasonable estimate of the fair value can be established. Thereafter, the asset retirement costs must be expensed using a rational and systematic method over the useful life of the assets. After having reviewed the leases of its outlets, the SAQ concluded that the adoption of these new recommendations had no impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

Depreciation of long-lived assets

In December 2002, the CICA published Section 3063 of the CICA Handbook, entitled "Impairment of Long-Lived Assets". This Section establishes the guidelines regarding the standards for the recognition, measurement and provision of information with respect to the impairment of long-lived assets, such as land, buildings and equipment, as well as fixed assets with a limited useful life. They require the recognition of an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value. The application of the recommendations of this section at the start of fiscal year 2005 had no major impact on the consolidated financial statements for the fiscal year ended March 26, 2005.

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. This interest is recognized using the proportionate consolidation method. During the fiscal year ended March 26, 2005, the SAQ acquired an additional interest of 5% in Société d'investissement M.-S., S.E.C., bringing its total interest in this joint venture to 50%. The SAQ's interest in Société d'investissement M.-S., S.E.C. was recognized on an equity basis up to the acquisition date, after which interest in this entity was recognized using the proportionate consolidation method.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that SAQ management make use of estimates and assumptions that affect the reported amounts of the assets and liabilities, 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.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Revenue recognition**

Sales to consumers, agencies, license holders, authorized distributors and brewers and beer distributors are recognized when transacted, i.e. at the time the products are delivered to the customers, less discounts and returns; and, specifically with respect to license holders, authorized distributors, brewers and beer distributors, when there is persuasive evidence that an agreement exists, that the amounts are or can be determined, and that collection is reasonably assured.

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. The foreign exchange gains and losses are included in the fiscal year's income statements. Exchange losses amounting to \$2.4 million and \$300 000 are included in the 2006 and 2005 income statements, respectively.

Derivative instruments

The SAQ partially manages its foreign exchange risk on the expected foreign currency outflow through the use of forward exchange contracts. However, these forward exchange contracts do not meet the hedge accounting conditions prescribed by Canadian generally accepted accounting principles. Consequently, the SAQ recognizes its forward exchange contracts at their fair value, and the resulting gains and losses are included in the operating expenses. While these forward exchange contracts fail to meet the hedge accounting conditions, the SAQ believes that, from the perspective of operations and cash flows, these contracts enable it to minimize the potential negative effects of a drop in the Canadian dollar on foreign exchange markets. The SAQ does not use forward exchange contracts for speculative purposes.

Income taxes

The SAQ is a public corporation of the Government of Quebec and, as such, is not subject to income taxes.

The income taxes presented in the consolidated financial statements are related to the SAQ's interest, recognized in accordance with the proportionate consolidation method, in the accounts of Maison des Futailles, 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 using enacted or substantively enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, short-term investments with maturities of 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.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

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

Fixed assets are stated at cost and depreciated over their estimated useful life. Depreciation is calculated using the straight-line method, except in the case of rolling stock acquired before March 28, 1999, where the diminishing balance method is used. The following annual rates are used:

Buildings	2.5% and 10%
Furniture and equipment	Rate varying between 2.8% and 50%
Rolling stock	Rate varying between 10% and 30%
Leasehold improvements	According to the duration of the leases, which vary from 5 to 15 years
Paving and parking	8%

Building rented under a capital lease

A building rented under a capital lease is stated at cost, which is the present value of the minimum payments stated in the lease. Depreciation on the building is calculated using the straight-line method at the annual rate of 2.5%.

Consolidated goodwill

Consolidated goodwill includes 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 they might be impaired. All goodwill items are related to operating units, and any possible impairment is detected by comparing the book value of the operating units to their fair value. If possible impairment is noted, it is quantified by comparing the book value of the goodwill with its fair value; a loss in value must be recognized in the income statements for an amount equal to the excess. The fair value of operating units is estimated based on current cash flows.

Organization charges

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 the management with respect to the progression of salaries, the age of retirement and the rate at which sick leave credits are used. The SAQ amortizes the unrecognized cumulative net actuarial gains and losses that are greater than 10% of forecast amount of cumulative sick leave credits on the average residual duration of activity of the unit of active employees participating in the plan. The average residual activity duration of the group of employees covered by the cumulative sick leave credit plan was 16 years at March 25, 2006 and 17 years at March 26, 2005.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefits plans (cont'd)***Retirement plans*

SAQ employees participate in retirement plans for government employees and public organizations.

These plans, administered by the Commission administrative des regimes de retraite et d'assurances (CARRA), are defined benefit programs which provide retirement and death benefits. Defined contribution plan accounting is applied to these plans, because the SAQ does not have enough information to apply defined benefit accounting..

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 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 or 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 6.6 years at March 25, 2006 and at March 26, 2005.

5. 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. The total consideration of \$3.0 million in cash was paid.

The transaction was accounted for by the purchase method. The acquisition cost was itemized into the acquired assets and the assumed liabilities at their estimated fair value on the date of the transaction.

The operating results of Clos Saint-Denis Inc. are included in the joint venture's consolidated income statement as of July 1, 2004.

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. 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	2005
Cash		75
Working capital		103
Fixed assets		773
Consolidated goodwill	(171)	2 131
Future income tax liabilities	56	(51)
Share of the non-controlling shareholder		(40)
	<u>(115)</u>	<u>2 991</u>
Net assets acquired		

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 25, 2006

(in thousands of dollars)

5. BUSINESS ACQUISITION (cont'd)

	2006	2005
Consideration paid (received) in cash	(115)	2 991
Cash acquired		(75)
Net amount paid (redeemed)	<u>(115)</u>	<u>2 916</u>
SAQ's proportionate ownership	<u>(58)</u>	<u>1 458</u>

6. NET SALES AND COST OF SALES

	Outlets and specialized centres	Whole- sale grocers	Subtotal	Brewers and beer distributors ¹	Total	
					2006	2005
Gross sales	2 210 149	374 461	2 584 610	180 699	2 765 309	2 544 715
Less :						
- Provincial sales tax	150 155	23 099	173 254	11 339	184 593	169 057
- Specific tax	80 107	28 417	108 524		108 524	98 703
- Specific license holders' tax ²	44 149		44 149		44 149	45 123
- Federal goods and services tax	131 064	20 152	151 216	9 891	161 107	147 590
- Discounts and returns	41 324		41 324		41 324	37 435
- Compensation to agents	5 292		5 292		5 292	6 740
- Compensation to wholesale grocers		41 426	41 426		41 426	47 882
- Contributions to the Environmental Fund	2 837	627	3 464		3 464	3 175
- Contributions to the Fonds Éduc'alcool inc.	1 953	359	2 312		2 312	2 106
	<u>456 881</u>	<u>114 080</u>	<u>570 961</u>	<u>21 230</u>	<u>592 191</u>	<u>557 811</u>
Net sales	<u>1 753 268</u>	<u>260 381</u>	<u>2 013 649</u>	<u>159 469</u>	<u>2 173 118</u>	<u>1 986 904</u>
Cost of sales	<u>772 589</u>	<u>126 881</u>	<u>899 470</u>	<u>159 469</u>	<u>1 058 939</u>	<u>991 397</u>

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.

2 The license holders' fee was replaced on September 1, 2004, by a specific tax pursuant to the changes made to the Licenses Act and the Act respecting the Quebec sales tax.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

7. FINANCING EXPENSES

	2006	2005
Interest on bank loans	4 679	4 169
Interest on term loans made to a business under shared control	2 630	3 772
Interest on debentures payable	177	227
Interest relating to the capital lease obligation	933	1 025
	<u>8 419</u>	<u>9 193</u>
Less : Interest on investments, term deposits and others	(1 806)	(1 168)
Interest on debentures receivable	(177)	(227)
	<u>(1 983)</u>	<u>(1 395)</u>
	<u>6 436</u>	<u>7 798</u>

8. ACCOUNTS RECEIVABLE

	2006	2005
Wholesale grocers	21 364	20 183
Licensed establishments, institutions and other commercial accounts	36 818	38 451
Short-term portion of debentures receivable		500
Income taxes receivable from of a joint venture subsidiary	34	85
	<u>58 216</u>	<u>59 219</u>

9. INVENTORY

	2006	2005
Bottled beverages	254 819	240 515
Beverages in bulk and production materials	8 152	8 093
Miscellaneous supplies	2 264	1 359
	<u>265 235</u>	<u>249 967</u>

10. FIXED ASSETS

	2006			2005		
	Cost	Accumul- ated amortiz- ation	Net value	Cost	Accumul- ated amortiz- ation	Net value
Land	10 974		10 974	11 108		11 108
Buildings	115 225	24 982	90 243	110 836	21 400	89 436
Furniture and equipment	319 464	182 816	136 648	307 644	150 367	157 277
Rolling stock	14 371	7 596	6 775	14 805	7 162	7 643
Leasehold improvements	45 552	23 277	22 275	44 515	20 319	24 196
Paving and parking	3 533	2 515	1 018	3 221	2 409	812
	<u>509 119</u>	<u>241 186</u>	<u>267 933</u>	<u>492 129</u>	<u>201 657</u>	<u>290 472</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 25, 2006

(in thousands of dollars)

11. BUILDING RENTED UNDER A CAPITAL LEASE

	2006			2005		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Building	16 280	11 803	4 477	16 280	11 396	4 884

12. OTHER ASSETS

	2006			2005		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Organization charges	1 664	1 631	33	1 664	1 392	272
Other	773		773	575		575
	2 437	1 631	806	2 239	1 392	847

13. BANK LOANS

	2006	2005
Term loans	196 396	267 930

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 25, 2006, bank loans consisted of six term loans totalling \$196.4 million, two of which amounted to \$80.0 million from a business under shared control (seven at March 26, 2005, totalling \$267.9 million, of which three were from a business under shared control totalling \$106.0 million). These loans bear interest at rates ranging from 3.78% to 3.80% (2.55% to 2.57% in 2005) and mature in six days or less (9 days or less in 2005).

Moreover, an SAQ joint venture has at its disposal an operating credit of up to \$5 million (in 2006 and 2005), which is guaranteed by a general movable hypothec on the whole of its accounts receivable and inventory, bears interest at the preferential rate and is renewable annually.

14. SUPPLIERS AND OTHER CREDITORS

	2006	2005
Suppliers	148 503	146 840
Government taxes and fees	67 821	67 126
Compensation and benefits	38 684	51 464
Short-term portion of debentures payable and of the capital lease obligation	1 489	1 387
	256 497	266 817

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

15. DEBENTURES

This sum represents the SAQ's interest in the unsecured debentures of a joint venture in the amount of \$4 million (\$10 million in 2005), less the short-term portion disclosed. These debentures are reimbursable in two annual payments of \$1 million and one final payment of \$2 million on July 1, 2009. The SAQ's share of these annual payment amounts is \$500 000 and \$1 million, respectively.

16. CAPITAL LEASE OBLIGATION

	2006	2005
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.	7 996	8 883
Less: Portion of the liability due within one year	(989)	(887)
	<u>7 007</u>	<u>7 996</u>

Payments in each of the following fiscal years:

	Principal	Interest	Total
2007	989	831	1 820
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>7 996</u>	<u>2 979</u>	<u>10 975</u>

17. 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 (\$3.8 million at March 26, 2005), and is amortized over 20 years. On April 1, 2001, the SAQ and the Fonds de solidarité des travailleurs du Québec acquired the shares held by Les Vins Andrès du Québec Ltée and 9072-3479 Québec inc., thereby increasing the SAQ's share in the joint venture to 50%.

Société d'investissement M.-S., 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, and an expense of \$500 000 was recognized in the combined statement of income and retained earnings for the fiscal year ended March 26, 2005, as an interest in the earnings of a business subject to significant influence.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

17. INTERESTS IN JOINT VENTURES (cont'd)**Société d'investissement M.-S., S.E.C. (cont'd)**

As of November 1, 2004, the proportionate method of consolidation was used to recognize the SAQ's interest in Société d'investissement M.-S., S.E.C. Thus, the share in the revenue and expenses of Société d'investissement M.-S., S.E.C. is included in the combined statement of income and retained earnings.

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.

	2006	2005
Results		
Net sales	41 650	42 334
Cost of products sold	<u>26 500</u>	<u>27 257</u>
	<u>15 150</u>	<u>15 077</u>
Operating expenses	9 275	9 697
Financing costs	581	453
Depreciation	1 395	1 337
Non-controlling shareholder's interest in the earnings of a subsidiary	<u></u>	<u>8</u>
	<u>11 251</u>	<u>11 495</u>
Earnings before income taxes	3 899	3 582
Income taxes	<u>4</u>	<u>32</u>
Net earnings	<u><u>3 895</u></u>	<u><u>3 550</u></u>
Balance sheet		
Current assets	21 427	21 724
Long-term assets	<u>21 338</u>	<u>22 543</u>
	<u>42 765</u>	<u>44 267</u>
Current liabilities	6 705	9 465
Long-term liabilities	1 529	4 166
Shareholder's equity	<u>34 531</u>	<u>30 636</u>
	<u>42 765</u>	<u>44 267</u>
Cash flows		
Cash flows provided from operating activities	3 073	3 502
Cash flows used for financing activities	(3 102)	(1 004)
Cash flows used for investment activities	(1 028)	(2 227)

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

18. EMPLOYEE FUTURE BENEFITS**Total cash payments**

Total cash payments on account of employee future benefits for 2006, 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 \$11.5 million (\$10.3 million in 2005).

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 of the supplemental retirement plan for executives was carried out, for the purposes of capitalization, on March 25, 2006, and the next valuation must be completed by December 31, 2009.

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	
	2006	2005	2006	2005
Pension benefit obligations and financial status	24 634	22 608	2 194	1 203
Unamortized balance	8 470	10 144	(957)	(303)
Accrued benefit liabilities appearing on the SAQ's balance sheet	33 104	32 752	1 237	900

Cost of employee future benefits recognized during the fiscal year

	Cumulative sick leave credit plan		Retirement plans	
	2006	2005	2006	2005
Defined benefit pension plans	2 405	64	337	170
Defined contribution pension plans			9 486	6 967

Since January 1, 2005, a greater number of SAQ employees are no longer accumulating sick leave credits. The result is a curtailment gain of \$2.1 million, which was fully recognized during the fiscal year ending March 26, 2005, as a reduction of costs.

The increase in costs recognized for the retirement plans can be attributed primarily to the increase in the Commission administrative des régimes de retraite et d'assurances' contribution rate.

Benefits paid

Benefits paid by the cumulative sick leave credits plan amounted to \$2.1 million (\$3.4 million in 2005), whereas no benefits were paid by the supplemental retirement plan for executives in 2005 and 2006.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 25, 2006

(in thousands of dollars)

18. EMPLOYEE FUTURE BENEFITS (cont'd)
Principal assumptions

The principal assumptions used are as follows:

	Cumulative sick leave credit plan		Supplemental retirement plan for executives	
	2006	2005	2006	2005
Obligations for pension benefits accumulated at the end of 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

Cost of benefits for the fiscal year				
Discount rate	5.50%	6.00%	5.50%	6.00%
Compensation growth rate	3.00%	3.00%	3.00%	3.00%
Rate of use of sick leave credits	*	*		

* From 40% to 65% depending on the employee group

19. CONTINGENCIES AND COMMITMENTS
Contingencies

In the normal course of its operations, the SAQ is faced with various claims and lawsuits, primarily for damages, totalling nearly \$9.3 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 \$280.4 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

2007	35 950
2008	35 357
2009	33 829
2010	32 820
2011	30 135
2012 - 2021	112 300

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 25, 2006

(in thousands of dollars)

20. CASH FLOW DATA

Cash flows related to operating activities include the following elements:

	2006	2005
Interest paid	8 489	9 087
Income taxes paid (collected) by a joint venture subsidiary	(36)	79

The net variation in the non-cash items of working capital is detailed as follows:

Accounts receivable	503	40 553
Inventory	(15 268)	40 974
Prepaid expenses	(536)	(3 279)
Suppliers and other creditors	(10 422)	57 191
	<u>(25 723)</u>	<u>135 439</u>
Cash and cash equivalents at the end of the fiscal year ¹	<u>32 540</u>	<u>46 282</u>

1 Includes a short-term investment in 600 000 shares of a mutual fund redeemable at book value at any time.

21. FINANCIAL INSTRUMENTS**Fair value of financial instruments**

	2006		2005	
	Fair value	Book value	Fair value	Book value
Debentures receivable, 8.66%			2 505	2 500
Debentures payable, 8.66%				
maturing July 1, 2009	1 988	2 000	2 505	2 500
Capital lease obligation	9 151	7 996	10 238	8 883

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; suppliers and other creditors, 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 6.33% in 2006 (6.70% in 2005).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 25, 2006

(in thousands of dollars)

21. FINANCIAL INSTRUMENTS (cont'd)**Interest-rate risk**

Debentures receivable bear a fixed interest rate and expose the SAQ to the risk that market interest rates exceed the interest rate linked to this asset.

The capital lease obligation and the debentures payable bear a fixed interest rate and expose the SAQ to the risk that market interest rates will be lower than the interest rates linked these liabilities.

Foreign exchange risk

The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. As at March 25, 2006, these accounts payable totalled 4.3 million euros and US\$0.5 million (2.5 million euros and US\$0.4 million at March 26, 2005).

Derivative instruments

To reduce the potential negative effects of a drop in the value of the Canadian dollar on exchange markets, the SAQ and one of its joint ventures entered into forward exchange contracts. Forward exchange contracts with terms of less than 12 months denominated in euros and in U.S. dollars were in effect at the end of the fiscal year ended March 25, 2006 (forward exchange contracts of less than 12 months denominated in euros, U.S. dollars and Australian dollars were in effect at the end of the fiscal year ended March 26, 2005).

	2006		2005	
	Forward exchange rate	Contract amount	Forward exchange rate	Contract amount
Foreign currencies				
Euro	1.5078	7 000	1.6122	5 250
U.S. dollar	1.1800	500	1.2290	750
Australian dollar			0.9288	150

At March 25, 2006, the fair value of accrued out-of-the-money forward exchange contracts was \$50 000 (\$100 000 at March 26, 2005).

22. POTENTIAL DISPOSAL OF AN OWNERSHIP INTEREST IN A JOINT VENTURE

On March 17, 2006, a privately owned Canadian company submitted to the shareholders of Maison des Futailles, S.E.C. a letter of intent regarding the potential acquisition of the latter. The letter of intent was accepted by the shareholders, thereby granting the firm exclusivity with respect to negotiations, which are expected to extend over a period of several weeks and will include a due diligence review by the potential acquirer. A number of aspects of this transactions, including the financial terms, remain to be finalized.

23. COMPARATIVE FIGURES

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**MANAGEMENT'S REPORT**

The consolidated financial statements provided below were 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 agreements and procedures established by the management and with Canadian generally accepted accounting principles. They reflect management's best judgment and estimates based on currently available information.

Within the framework of its responsibilities, 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 protected, that all transactions taking place 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 provided to the management, which acts accordingly.

The SAQ Board of Directors is responsible for ensuring that management fulfils its obligations with respect to the preparation of financial statements and to the financial control of company operations. The Board performs this function through the Audit Committee, which consist solely of independent directors. The Board also periodically reviews the consolidated financial statements and studies the reports on accounting policies and methodologies, as well as on the internal control systems.

The consolidated financial statements were audited by the firm Raymond Chabot Grant Thornton, in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion as to the fairness of the financial statements. The auditor's report, shown opposite, specifies the extent 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 important elements and data available as of May 16, 2006.

Sylvain Toutant
President and Chief Executive Officer

Richard Genest
Vice-President and
Chief Financial Officer

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

AUDITORS' REPORT

Michel Audet
Minister of Finance
Société des alcools du Québec shareholder

We have verified the consolidated balance sheet of the Société des alcools du Québec as at March 25, 2006, and the consolidated statements of earnings, retained earnings and cash flows for the fiscal year ended on the above date. These financial statements are the responsibility of the SAQ's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was carried out in accordance with the Canadian generally accepted auditing principles, which require that we plan and perform an audit to obtain reasonable assurance 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 25, 2006, and the results of its operations and its cash flows for the year ended on the above date, in accordance with Canadian generally accepted accounting principles.

As prescribed by the Auditor General Act (R.S.Q., c. V-5.01), we hereby declare that, in our opinion, these principles were applied in the same manner as the previous fiscal year.

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

Montréal, May 16, 2006

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
(R.S.Q., c. S-13.01)

RESULTS

for the year ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Fishing and vacation resorts	30 459	29 460
Hunting	15 084	13 749
Food services, boutiques and accommodation stores	14 313	13 264
Other outdoor activities	11 509	11 118
Concessions and miscellaneous	4 759	4 563
Subsidies	1 040	2 742
Management fees	19 946	21 428
	<u>97 110</u>	<u>96 324</u>
EXPENSES		
Salaries and fringe benefits	47 217	48 074
Maintenance	14 422	14 741
Overhead and administrative expenses	13 740	13 828
Resale products	10 291	9 004
Selling cost and marketing expenses	5 736	4 694
	<u>91 406</u>	<u>90 341</u>
OPERATING RESULTS BEFORE AMORTIZATION	5 704	5 983
Amortization	<u>(5 312)</u>	<u>(5 397)</u>
OPERATING RESULTS	392	586
Financial charges (Note 3)	(1 383)	(1 087)
Subsidy for interest	1 431	1 509
Other items (Note 4)	<u>17</u>	<u>(636)</u>
NET INCOME	<u><u>457</u></u>	<u><u>372</u></u>

ACCUMULATED DEFICIT
for the years ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPENING BALANCE	(30 516)	(30 888)
Net income	<u>457</u>	<u>372</u>
CLOSING BALANCE	<u><u>(30 059)</u></u>	<u><u>(30 516)</u></u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2006	2005
ASSETS		
Current assets		
Accounts receivable	3 207	3 147
Subsidies receivable	7 055	2 057
Inventories	2 201	3 198
Expenses deferred to the coming year	1 774	1 350
	<u>14 237</u>	<u>9 752</u>
Subsidies receivable	22 056	18 876
Interest and advance in the affiliated company	419	518
Fixed assets (Note 5)	<u>167 804</u>	<u>164 119</u>
	<u>204 516</u>	<u>193 265</u>
LIABILITIES		
Current liabilities		
Outstanding cheques net cash on hand	264	351
Accounts payable	20 350	18 796
Customer deposits	10 509	9 669
Long-term debt maturing during the coming year (Note 6)	400	400
	<u>31 523</u>	<u>29 216</u>
Long-term debt (Note 6)	51 831	47 157
Deferred subsidies	<u>79 634</u>	<u>75 821</u>
	<u>162 988</u>	<u>152 194</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	71 587	71 587
Accumulated deficit	<u>(30 059)</u>	<u>(30 516)</u>
	<u>41 528</u>	<u>41 071</u>
	<u>204 516</u>	<u>193 265</u>

COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)

On behalf of the Board of Directors,
Georges Laberge
Yvan Bilodeau

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

CASH FLOW
for the years ended March 31
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net results	457	372
Amortization	5 312	5 397
Other items (Note 4)	(17)	636
Short-term variation in items	<u>1 195</u>	<u>3 123</u>
	<u>6 947</u>	<u>9 528</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(14 008)	(14 865)
Proceeds from sale of assets	79	1 056
Advance to an affiliated company	<u>94</u>	<u>14</u>
	<u>(13 835)</u>	<u>(13 795)</u>
FINANCING ACTIVITIES		
Subsidies for fixed asserts encashed	2 301	1 948
Borrowing	5 074	3 372
Repayment of long-term debt	<u>(400)</u>	<u>(400)</u>
	<u>6 975</u>	<u>4 920</u>
CHANGE IN CASH FLOWS	87	653
OUTSTANDING CHEQUES NET CASH AT THE BEGINNING	<u>(351)</u>	<u>(1 004)</u>
OUTSTANDING CHEQUES NET CASH AT THE END	<u>(264)</u>	<u>(351)</u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006
(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. Its purpose is to administer, operate and develop, alone or jointly with others, the recreational or tourist installations, immovable or territories that are transferred to it under this Act; and to devise, erect, administer, operate and develop, alone or jointly with others, any other recreational or tourist installation, immovable or territory.

2. ACCOUNTING POLICIES

a) Use of estimates

The preparation of financial statements in keeping with the accounting principles that are generally accepted in Canada requires management to use estimates and assumptions that affect the amount of assets and liabilities recorded and the presentation of potential assets and liabilities at the date of the financial statements, and amounts recorded and charges for the fiscal year. Real results may differ from estimates.

b) Revenue reporting

Revenues from delivery of services related to fishing, vacationing, hunting and other outdoor activities are reported when the services are rendered.

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.

Subsidies come from the Gouvernement du Québec and are reported as 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 reported as revenues in the fiscal years in question.

c) Stock assessment

Stocks are assessed at the lesser of cost (average cost method) and net realization value.

d) Interest in affiliated company

The Société accounts for its interest in the affiliated company on an equity basis.

e) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Buildings and infrastructures	4%
Ski lifts	5%
Automotive equipment, furniture, equipment, leasehold improvements and wildlife developments	14% and 20%

Fixed assets are reviewed for depreciation when there are indications that their book values may not be recoverable.

f) Deferred subsidies

Fixed asset subsidies are recorded as deferred subsidies and transferred to operations as the fixed assets to which they relate are depreciated.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars)

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

The staff members of the Société are covered by pension plans offered to Québec government and public agency employees. The Société's contribution to these plans totalled \$1 572 414 (2005: \$1 230 655), 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 \$1 383 000 (2005: \$1 087 000) include interest on the long-term debt of \$1 368 000 (2005: \$1 076 000) and interest on the bank borrowing of \$15 000 (2005: \$11 000).

4. OTHER ITEMS

	2006	2005
Gain on sale of assets	22	997
Share in results of affiliated company	(5)	(5)
Reduction in value of Auberge Fort-Prével fixed assets		(1 628)
	<u>17</u>	<u>(636)</u>

5. FIXED ASSETS

	2006		2005
	Cost	Cumulated amortization	Net value
Lands	2 458		2 458
Recreational or tourist territories	13 892		13 892
Buildings and infrastructures	184 570	42 193	142 377
Ski lift	1 499	890	609
Rolling stock	11 025	6 730	4 295
Furniture, equipment, leasehold improvements	19 308	15 135	4 173
	<u>232 752</u>	<u>64 948</u>	<u>167 804</u>
			<u>164 119</u>

In fiscal 2005-2006, subsidies of \$9 806 000 (2005: \$5 970 000) were granted for work on immoveables and were reported as deferred subsidies.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

6. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
Bank acceptances, in the amount of \$49 483 000, maturing from April to July 2006, bearing interest at rates varying from 3.63% to 4.01% and loan at the prime rate in the amount of \$2 148 000 ¹	51 631	46 557
Borrowing from the Government of Canada of an original amount of \$4 000 000 under the Canada Québec Québec Subsidiary Agreement on Tourism Development, interest-free, repayable in semi-annual instalments of \$200 000, maturing in 2008	600 <u>52 231</u>	1 000 <u>47 557</u>
Less: Portion due within one year	<u>400</u>	<u>400</u>
	<u>51 831</u>	<u>47 157</u>

1 The Société negotiated with financial institutions with credit facilities allowing it to borrow, as it wished, various amounts in different forms up to a maximum of \$88 000 000 which the government authorized it to borrow, including a credit facility of an amount varying from \$60 000 000 to \$70 000 000 renewable in April 2008 and maturing in April 2017.

Capital repayments on the long-term debt to be made over the coming fiscal years, assuming that the credit facilities are renewable with the same conditions, are the following:

2007	400
2008	200

7. CAPITAL STOCK

	<u>2006</u>	<u>2005</u>
Authorized:		
Pursuant to its incorporating act, the Société is authorized to issue to the Minister of Finance 750 000 common voting shares with a par value of \$100		
Issued:		
268 617 shares issued as payment for the transfer of assets	26 862	26 862
447 250 shares paid in cash	44 725	44 725
	<u>71 587</u>	<u>71 587</u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars)

8. COMMITMENTS

The Société is bound by commitments for a balance of \$16 372 450, excluding escalator clauses on leases. The minimum lease payments for the next five fiscal years are as follows:

2007	4 405
2008	3 377
2009	2 568
2010	1 282
2011	1 279

Further, at March 31, 2006, the Société committed to fixed asset expenditures of \$2 055 000 over the coming fiscal year.

9. 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.

10. SUBSEQUENT EVENT

At May 3, 2006, the Société signed an agreement with the Société des parcs de sciences naturelles du Québec under which it was entrusted with the mandate of managing and administering the Parc Aquarium du Québec and coordinating the plan to close the Jardin zoologique du Québec.

11. 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, receivables, clients deposits and long-term borrowings indicated in the balance sheet are close to their fair value.

The fair value of the debt contracted with the federal government and subsidies receivable were not determined since it was practically impossible to find an instrument on the market with essentially the same economic characteristics.

12. COMPARATIVE FIGURES

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

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des établissements de plein air du Québec (SÉPAQ) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains an accounting system and a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The accounting firm of Mallette, general partnership, limited-liability chartered accountants, has audited the Société's financial statements in accordance with auditing standards that are generally accepted in Canada. Its report states the nature and scope of its audit and its opinion. The auditor may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Yvan Bilodeau
President and Chief Executive Officer

Réal Couture, CA
Vice-chairman,
Administration and Finance

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, 2006 and the results, accumulated deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Mallette
SENCRL
Chartered Accountants

Québec, April 28, 2006
(May 3 for Note 10)

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
(R.S.Q., c. S-14)

REVENUES AND DEFICIT
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
EXPENSES		
Operating expenses (Note 3)	\$46 096 146	\$42 470 214
Administrative expenses (Note 4)	4 300 928	4 364 494
Depreciation of fixed assets	7 651 471	8 601 660
Financial expenses	<u>4 069 121</u>	<u>4 368 091</u>
	<u>62 117 666</u>	<u>59 804 459</u>
REVENUES		
Vehicle transport	7 757 962	7 281 951
Passenger transport	6 203 250	6 315 940
Other (Note 5)	<u>606 243</u>	<u>933 960</u>
	<u>14 567 455</u>	<u>14 531 851</u>
LOSS BEFORE GOVERNMENT CONTRIBUTIONS	47 550 211	45 272 608
GOVERNMENT CONTRIBUTIONS (Note 6)	<u>47 135 907</u>	<u>45 846 240</u>
(NET LOSS) NET INCOME	(414 304)	573 632
DEFICIT, BEGINNING OF YEAR	<u>9 742 762</u>	<u>10 316 394</u>
DEFICIT, END OF YEAR	<u><u>\$10 157 066</u></u>	<u><u>\$9 742 762</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash on hand	\$3 068 666	\$5 496 107
Accounts receivable (Note 7)	3 042 425	786 450
Prepaid expenses	332 919	322 902
Contribution to be recovered from the Government (Note 8)	889 129	962 748
	<u>7 333 139</u>	<u>7 568 207</u>
Investment of compensation for federal wharves (Note 11)	35 558 138	36 696 205
Contribution to be recovered from the Government (Note 8)	26 776 370	26 199 240
Fixed assets (Note 9)	<u>78 237 383</u>	<u>83 274 416</u>
	<u><u>\$147 905 030</u></u>	<u><u>\$153 738 068</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$7 656 374	\$7 408 480
Instalments on long-term debt (Note 10)	4 641 077	4 185 811
	<u>12 297 451</u>	<u>11 594 291</u>
Rent collected in advance	<u>138 000</u>	<u>144 000</u>
Long-term debt (Note 10)	<u>77 835 189</u>	<u>81 002 961</u>
Deferred government contribution		
Related to the financial compensation from the transfer of federal wharves (Note 11)	35 558 138	36 696 205
Related to fixed assets (Note 12)	30 559 524	32 369 579
	<u>66 117 662</u>	<u>69 065 784</u>
	<u>156 388 302</u>	<u>161 807 036</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>(10 157 066)</u>	<u>(9 742 762)</u>
	<u>(8 483 272)</u>	<u>(8 068 968)</u>
	<u><u>\$147 905 030</u></u>	<u><u>\$153 738 068</u></u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Georges Farrah
Johanne Robertson

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**CASH FLOW**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
(Net loss) Net income	\$(414 304)	\$573 632
Adjustments for:		
Depreciation of fixed assets	7 651 471	8 601 660
Increase in contribution to be recovered from the Government	(503 511)	(1 539 554)
Transfer of deferred Government contributions	(5 182 845)	(5 200 020)
Loss on disposal of fixed assets	22 316	19 718
Decrease in rent collected in advance	(6 000)	(6 000)
	<u>1 567 127</u>	<u>2 449 436</u>
Change in certain elements of assets and short-term liabilities apart from cash and cash equivalents:		
Accounts receivable	(2 255 975)	643 337
Prepaid expenses	(10 017)	(109 581)
Accounts payable and accruals	<u>633 524</u>	<u>167 111</u>
Cash flows resulting from operating activities	<u>(65 341)</u>	<u>3 150 303</u>
INVESTMENT ACTIVITIES		
Acquisition of long-term investment	(2 235 862)	(2 292 512)
Proceeds from disposal of investment	3 371 651	3 322 251
Acquisition of fixed assets	(3 022 384)	(1 255 612)
Proceeds from disposal of fixed assets	<u>3 331</u>	<u>3 331</u>
Cash flows used for investment activities	<u>(1 886 595)</u>	<u>(222 542)</u>
FINANCING ACTIVITIES		
Long-term borrowing	1 473 304	
Government contribution and related financial proceeds from transfer of federal wharves	2 237 001	2 226 667
Repayment of long-term debt	<u>(4 185 810)</u>	<u>(3 943 919)</u>
Cash flows resulting from (used for) financing activities	<u>(475 505)</u>	<u>(1 717 252)</u>
(DECREASE) INCREASE IN CASH ON HAND	<u>(2 427 441)</u>	<u>1 210 509</u>
CASH ON HAND, BEGINNING OF THE YEAR	<u>5 496 107</u>	<u>4 285 598</u>
CASH ON HAND, END OF YEAR	<u><u>\$3 068 666</u></u>	<u><u>\$5 496 107</u></u>
Interest paid during the fiscal year	<u>\$4 142 740</u>	<u>\$4 384 631</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Société des traversiers du Québec is a joint-stock company established under a special act (R.S.Q., chapter S-14) for the purpose of providing ferryboat transportation services across rivers and lakes situated in Québec. Its shares are part of the public domain of Québec and are reserved for the Minister of Finance.

Under section 5 of its incorporating legislation, the Société is an agent of the State and, consequently, is not subject to Québec and Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Revenue reporting

Service delivery

Revenues from service delivery are recorded once the following conditions have been fulfilled:

- ✓ The service was paid for and rendered or will be rendered within an undetermined period;
- ✓ 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 recorded as revenues in the fiscal years in which the corresponding charges are incurred. Unassigned subsidies are recorded as revenues when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Fixed assets

Fixed assets acquired by donation are valued at historical cost, appraised value or their municipal assessment. Other fixed assets are recorded at acquisition cost, which includes interest accrued during construction and repair work.

Fixed assets are depreciated according to the following methods and rates:

	Method	Rate
Buildings	Diminishing balance	4% and 10%
Wharves	Diminishing balance	5%
Vessels	Diminishing balance	15%
Fixtures and equipment	Diminishing balance	20%
Automotive equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	Term of lease

Contribution to be recovered from the Government

The contribution to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for the acquisition of fixed assets, plus the accumulated depreciation on those assets, and the subsidies received from the Gouvernement du Québec to make the payments on said borrowings.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Deferred Government contributions**

Subsidies for the acquisition of fixed assets and the value assigned to assets acquired by donation are recorded as deferred Government contributions and transferred to operations using the same methods and rates of depreciation as those used for the fixed assets concerned.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts, whose balances often fluctuate between overdraft and available amounts, and short-term investments maturing within three months of the date they were acquired.

3. OPERATING EXPENSES

	2006	2005
Salaries and fringe benefits	\$20 116 249	\$20 000 261
Operating contracts	1 624 995	1 789 138
Fuel	7 463 058	5 708 964
Maintenance and repairs - Vessels	5 860 013	5 335 025
Maintenance and repairs - Wharves	5 607 621	4 365 730
Maintenance and repairs - Buildings	491 361	460 093
Property and school taxes	893 503	862 302
Insurance	1 435 903	1 567 968
Other	2 791 079	2 583 007
Amounts recovered from insurers	(187 636)	(202 274)
	<u>\$46 096 146</u>	<u>\$42 470 214</u>

4. ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$3 137 022	\$3 188 791
Staff training	301 002	217 692
Stationery and printing	89 617	101 920
Professional fees	95 667	194 802
Other	677 620	701 289
Amounts recovered from insurers	(40 000)	(40 000)
	<u>\$4 300 928</u>	<u>\$4 364 494</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006
5. OTHER REVENUE

	2006	2005
Interest on bank deposits	\$186 047	\$178 540
Interest on adjustment to the Commission de la santé et de la sécurité du travail assessment	11 241	9 640
Docking fees	59 007	58 726
Parking and miscellaneous	128 222	125 005
Vending machines and food concession	188 977	197 841
Advertising	39 133	32 605
Vessel rental		4 000
Space rental	15 932	24 017
Lawsuit settlement		323 304
Loss on disposal of fixed assets	(22 316)	(19 718)
	<u>\$606 243</u>	<u>\$933 960</u>

6. GOVERNMENT CONTRIBUTIONS

	2006	2005
Gouvernement du Québec subsidies		
Operating subsidy from the Ministère des Transports	\$41 449 551	\$38 916 100
Conseil du Trésor subsidy		190 566
Government contributions collectable	503 511	1 539 554
	<u>41 953 062</u>	<u>40 646 220</u>
Transfer of deferred Government contributions		
Related to the financial compensation from the transfer of federal wharves (Note 11)	3 372 790	3 256 406
Related to fixed assets (Note 12)	1 810 055	1 943 614
	<u>5 182 845</u>	<u>5 200 020</u>
	<u>\$47 135 907</u>	<u>\$45 846 240</u>

7. ACCOUNTS RECEIVABLE

	2006	2005
Transportation sector	\$422 973	\$304 912
Government sector	45 828	29 502
Ministère des Transports subsidy receivable	2 533 451	
Insurance claim and lawsuit settlement		406 035
Other	40 173	46 001
	<u>\$3 042 425</u>	<u>\$786 450</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT

The Government committed to paying the Société the sums required to discharge its obligations regarding borrowings from the Financing Fund for the acquisition of fixed assets, after ensuring that the Société is unable to discharge them itself.

The contribution to be recovered is as follows:

	2006	2005
Opening balance	\$27 161 988	\$25 622 434
Depreciation of fixed assets financed on a long-term basis	4 762 940	5 500 013
Accrued interest on borrowings	4 069 121	4 368 091
	<u>35 994 049</u>	<u>35 490 538</u>
Government contributions received	<u>(8 328 550)</u>	<u>(8 328 550)</u>
Closing balance	<u>\$27 665 499</u>	<u>\$27 161 988</u>

This balance relates to the following balance sheet items:

	2006	2005
Borrowings from the Financing Fund (Note 10)	\$56 924 856	\$59 637 362
Unamortized cost of fixed assets financed on a long-term basis (Note 9)	<u>(30 148 486)</u>	<u>(33 438 122)</u>
	26 776 370	26 199 240
Accrued interest on borrowings	<u>889 129</u>	<u>962 748</u>
	<u>\$27 665 499</u>	<u>\$27 161 988</u>

SOCIÉTÉ DES TRAVERSISERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. FIXED ASSETS

	2006				2005	
	Financed on a long-term basis (Note 8)	Acquired from the Gouvernement 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	2 140 235	12 887 721	12 294 469
Vessels *	103 483 468		29 228 709	3 753 518	136 465 695	134 549 218
Furniture and equipment			12 738	2 321 653	2 334 391	2 343 489
Automotive equipment				123 149	123 149	123 149
Leasehold improvements			215 930	637 794	853 724	853 724
	<u>108 514 484</u>	<u>24 790 610</u>	<u>74 999 683</u>	<u>9 720 191</u>	<u>218 024 968</u>	<u>215 524 337</u>
Accumulated depreciation						
Wharves	359 567	11 246 003	12 403 626	158 211	24 167 407	22 009 663
Buildings	376 233	1 254 437	3 195 414	747 849	5 573 933	5 060 942
Vessels	77 630 198		28 441 464	1 370 988	107 442 650	102 659 120
Furniture and equipment			9 930	1 629 550	1 639 480	1 561 550
Automotive equipment				110 391	110 391	104 922
Leasehold improvements			215 930	637 794	853 724	853 724
	<u>78 365 998</u>	<u>12 500 440</u>	<u>44 266 364</u>	<u>4 654 783</u>	<u>139 787 585</u>	<u>132 249 921</u>
Net value	<u>\$30 148 486</u>	<u>\$12 290 170</u>	<u>\$30 733 319</u>	<u>\$5 065 408</u>	<u>\$78 237 383</u>	<u>\$83 274 416</u>

* At March 31, 2006, this item included an amount of \$1 916 477 for renovation of the HMS Catherine-Legarneur on which no amortization was recorded.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. LONG-TERM DEBT**

	<u>2006</u>	<u>2005</u>
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	15 234 477	17 336 336
Borrowing from the Financing Fund, 6.96%, repayable in semi-annual instalments of \$1 725 967, maturing January 2018	27 747 679	29 195 472
Borrowing from the Financing Fund, 5.06%, repayable in semi-annual instalments of \$280 938, maturing January 2018	5 004 583	5 304 253
Borrowing from the Financing Fund, 5.68%, repayable in semi-annual instalments of \$288 635, maturing January 2018	4 966 088	5 250 689
Borrowing from the Financing Fund, 6.04%, repayable in semi-annual instalments of \$102 319, maturing June 2028	2 498 725	2 550 612
Borrowing from the Financing Fund, 4.72%, repayable in semi-annual instalments of \$91 860, maturing December 2015	<u>1 473 304</u> 82 476 266	<u>85 188 772</u>
Instalments due within one year	<u>4 641 077</u>	<u>4 185 811</u>
	<u><u>\$77 835 189</u></u>	<u><u>\$81 002 961</u></u>

Payments of principal on loans for the next five fiscal years are as follows:

2007	\$4 641 077
2008	4 965 684
2009	5 338 466
2010	5 740 000
2011	6 172 549

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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.

	2006	2005
Opening balance	\$36 696 205	\$37 594 254
Interest earned	2 135 265	2 192 602
Amortization of discount and premiums on investments	100 597	99 910
Safekeeping charges	(1 139)	(2 234)
Gain on disposal of investment	68 079	68 079
	<u>38 930 928</u>	<u>39 952 611</u>
Transfer to operations of an amount equivalent to net maintenance and repair costs for the federal wharves	<u>(3 372 790)</u>	<u>(3 256 406)</u>
	<u>\$35 558 138</u>	<u>\$36 696 205</u>

This balance relates to the following balance sheet items:

Investment of compensation for federal wharves comprising:

Cash	\$347 225	\$334 360
Compulsory market investment		
(market value: \$37 839 463; 2005 : \$39 845 799)	34 745 996	35 989 284
Accrued interest receivable	<u>464 917</u>	<u>372 561</u>
	<u>\$35 558 138</u>	<u>\$36 696 205</u>

Compulsory investments include interest of 5.15% and 12.25%. Maturity dates range from April 2006 to July 2025.

Discounts and bonuses are amortized using the internal rate of return method.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FIXED ASSETS

	2006	2005
a) Gouvernement du Québec		
Opening balance	\$4 466 036	\$4 937 179
Transfer of the following amounts to results:		
Amortization of fixed assets subsidized or acquired by donation	(411 575)	(461 707)
Unamortized balance on immoveable sold during the year		(9 436)
Closing balance	4 054 461	4 466 036
b) Gouvernement du Canada		
Opening balance	27 903 543	29 376 014
Transfer to operations of an amount equal to the depreciation of subsidized or donated fixed assets	(1 398 480)	(1 472 471)
Closing balance	26 505 063	27 903 543
	<u>\$30 559 524</u>	<u>\$32 369 579</u>

This balance relates to the following items:

Land	\$173 794	\$173 794
Wharves	27 997 671	29 471 233
Buildings	1 771 801	1 968 667
Vessels	787 244	926 169
Fixtures and equipment	2 808	3 510
	30 733 318	32 543 373
Deduct: Government share recorded as contributed surplus (Note 14)	(173 794)	(173 794)
	<u>\$30 559 524</u>	<u>\$32 369 579</u>

13. CAPITAL STOCK

	2006	2005
Authorized:		
100 000 shares with a par value of \$100 each		
Issued and paid up:		
15 000 shares	<u>\$1 500 000</u>	<u>\$1 500 000</u>

14. CONTRIBUTED SURPLUS

	2006	2005
Government share related to property acquired by donation (Note 12)	<u>\$173 794</u>	<u>\$173 794</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**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, it also renewed its lease for rental of Port of Québec offices expiring in 2009. This lease includes three 5-year options for renewal.

Under service agreements with three water carriers aimed at maintaining ferry services, the Société is committed to paying these carriers an annual amount to cover certain allowances and to make up their budgetary deficit.

Lease payments for the year ended March 31, 2006 amount to \$64 857. Remuneration paid to carriers amounts to \$1 624 995.

At March 31, 2006, the Société's commitments for the next five fiscal years are as follows:

	Leases	Services agreements*
2007	\$66 000	\$1 904 487
2008	67 000	
2009	68 000	
2010	61 000	
2011	51 000	
	<u>\$313 000</u>	<u>\$1 904 487</u>

* The amounts of service agreements are based on an estimate of the costs foreseen under contracts and carriers' budgetary deficits.

On September 22, 2005, the Société signed a \$3 907 469 contract for the modernization of the HMS Catherine-Legardeur. Commitments related to this contract totalled \$2 013 017 at March 31, 2006. As of the beginning of the next fiscal year, costs will be financed over the long term with the Ministère des Finances and the borrowing will be repayable over a 20-year period.

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 either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

17. PENSION PLANS

The staff members of the Société participate in the Government and Public Employees Retirement Plan or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$688 242 (2005: \$563 194). The Société's liability towards this Government plan is restricted to its contributions as an employer.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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.

Long-term debt

At March 31, 2006, the fair value of the long-term debt of \$82 476 266 (2005: \$85 188 722) was \$89 648 514 (2005: \$92 549 520) given the discounting of cash flows at the market rate for certificates of indebtedness with similar maturity dates and interest rates. However, in the fair value mentioned above, an amount of \$25 551 410, owing to the Gouvernement du Québec, was not assessed and was considered at book value given the lack of a market for this type of long-term debt.

Short-term borrowing

At March 31, 2006, the Société was able to meet its short-term cash needs through short-term borrowings or a credit line with financial institutions or the Government's Financing Fund. These credit lines are authorized up to \$5 000 000 until July 31, 2007. They bear interest at the lending institution's prime rate less 2.5%.

Other assets and liabilities

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

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des traversiers du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual management report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Georges Farrah
President and Chief Executive Officer

Québec, May 18, 2006

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, 2006 and the revenues and deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, May 17, 2006

SOCIÉTÉ D'HABITATION DU QUÉBEC
(R.S.Q., c. S-8)

REVENUES AND EXPENSES
for the year ended December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
REVENUES		
Contributions (Note 3)		
Gouvernement du Québec	332 157	303 989
Canada Mortgage and Housing Corporation	<u>291 607</u>	<u>289 255</u>
	623 764	593 244
Fees (Note 4)	842	976
Interest and other revenues	<u>1 761</u>	<u>1 533</u>
	<u>626 367</u>	<u>595 753</u>
EXPENSES		
Program costs (Note 3)	595 311	563 138
Administrative expenses (Note 5)	<u>31 056</u>	<u>32 615</u>
	<u>626 367</u>	<u>595 753</u>

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC

BALANCE SHEET
as at December 31, 2005
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 6)	53 810	50 406
Accounts receivable (Note 7)	<u>41 708</u>	<u>78 490</u>
	95 518	128 896
Contribution recoverable – Gouvernement du Québec (Note 13)	10 925	8 595
Fixed assets (Note 8)	<u>6 019</u>	<u>4 952</u>
	<u>112 462</u>	<u>142 443</u>
LIABILITIES		
Current liabilities		
Short-term borrowing (Note 9)	6 019	4 894
Accounts payable (Note 10)	49 477	61 222
Provision for vacation time (Note 11)	2 092	2 246
Deferred contribution – Canada Mortgage and Housing Corporation (Note 12)	<u>38 789</u>	<u>59 395</u>
	96 377	127 757
Allowance for losses on loan guarantees (Note 13)	10 925	8 595
Provision for sick leave (Note 11)	<u>5 160</u>	<u>6 091</u>
	<u>112 462</u>	<u>142 443</u>

COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)

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
Pierre Cliche, President and CEO

SOCIÉTÉ D'HABITATION DU QUÉBEC**CASH FLOW**

for the year ended December 31, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash receipts – government contributions	639 268	649 945
Cash receipts – fees	702	919
Cash receipts – other	42	96
Disbursements – program cost	(606 220)	(599 285)
Disbursements – administrative expenses	(29 756)	(30 410)
Interest received	1 728	1 441
Interest paid	(138)	(106)
	<u>5 626</u>	<u>22 600</u>
Amounts held for funding agencies (Note 14)		
Cash receipts – amounts received	1 910	1 798
Disbursements – amounts received	(2 012)	(1 755)
Interest received	9	6
	<u>(93)</u>	<u>49</u>
	<u>5 533</u>	<u>22 649</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of fixed assets	<u>(3 254)</u>	<u>(2 614)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowings	<u>1 125</u>	<u>444</u>
INCREASE IN CASH AND CASH EQUIVALENTS	3 404	20 479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>50 406</u>	<u>29 927</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	<u><u>53 810</u></u>	<u><u>50 406</u></u>

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at December 31, 2005

(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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

a. Contributions

Contributions for program costs and the fiscal year's administrative costs are recorded as revenue when the costs related to these programs and administrative costs are also recorded.

The Canada Mortgage and Housing Corporation acts on behalf of the Government of Canada concerning the programs contemplated by Canada-Québec framework agreements.

b. Program costs

Subsidies for program costs are recorded to expenditures when the events related to them occur provided they had been authorized and the beneficiaries met the eligibility criteria, where applicable.

c. Pension plans

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

d. Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid short-term investments that can easily be converted into a known amount of cash, whose value is unlikely to change significantly.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

e. Fixed assets

Fixed assets are recorded at cost.

Computer development includes the cost of system design, execution, implementation and improvement.

Fixed assets are amortized using the straight-line method over their estimated service life:

Fixed assets

Leasehold improvements	5 years
Equipment	3 years

Tangibles 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	2005			2004		
	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	230 455	95 280	135 175	219 656	89 828	129 828
Inuit component	61 003	31 257	29 746	56 590	25 756	30 834
	<u>291 458</u>	<u>126 537</u>	<u>164 921</u>	<u>276 246</u>	<u>115 584</u>	<u>160 662</u>
Private						
Housing cooperatives and non-profit organizations	25 427	6 357	19 070	26 096	6 524	19 572
Native housing – urban	6 632	1 674	4 958	7 192	1 813	5 379
Native housing – rural	5 503	1 386	4 117	6 031	1 517	4 514
	<u>37 562</u>	<u>9 417</u>	<u>28 145</u>	<u>39 319</u>	<u>9 854</u>	<u>29 465</u>
Amounts carried forward	<u>329 020</u>	<u>135 954</u>	<u>193 066</u>	<u>315 565</u>	<u>125 438</u>	<u>190 127</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2005			2004		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Affordable, community social housing assistance (cont'd)						
Non-profit housing (b) (cont'd)						
Amounts carried forward	329 020	135 954	193 066	315 565	125 438	190 127
Housing allowance for the elderly and families	87 955	87 955		89 737	89 737	
Logement abordable Québec						
Social and community component	37 697	3 709	33 988	13 794	949	12 845
Private component	3 969	260	3 709	2 627	20	2 607
Kativik region component	1 226	170	1 056	(30)	(38)	8
Rent supplement	41 939	24 190	17 749	40 111	20 946	19 165
AccèsLogis Québec for non-profit - cooperative housing	24 128	16 418	7 710	45 013	9 146	35 867
Emergency assistance in the context of the rental housing shortage						
2004 program	13 945	11 264	2 681	6 896	6 896	
2005 program	2 266	2 252	14			
Achat-Rénovation for non-profit, cooperative housing	2 125	2 125		3 173	3 173	
Assistance for community organizations	1 440	1 440		1 120	1 120	
Housing initiative in Nunavik	253	253		303	303	
Achat-Rénovation for owner occupants in the Kativik area				5	5	
Sub-total (amounts carried forward)	545 963	285 990	259 973	518 314	257 695	260 619

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2005			2004		
	Cost	Contributions		Cost	Contributions	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Amounts brought forward	545 963	285 990	259 973	518 314	257 695	260 619
Housing improvement						
RénoVillage	14 642	4 764	9 878	11 461	3 818	7 643
Rénovation Québec	11 790	2 494	9 296	11 879	932	10 947
Assistance program for the improvement of nursing homes	9 600	7 216	2 384	6 087	4 711	1 376
Improvements to shelters	4 527	1 191	3 336	1 699	372	1 327
Home adaptations for greater autonomy of seniors	2 146	505	1 641	301	95	206
Assistance program for the revitalization of core areas	2 291	2 291		2 462	2 462	
Assistance for owners of residential buildings damaged by pyrite oxidation	2 010	1 451	559	2 629	2 003	626
Emergency repairs	1 095	194	901	1 218	345	873
Purchase assistance in Radisson	128	128		555	555	
Rénovation résidentielle – Radisson	39	39		98	98	
Radon	6	6		9	9	
Sub-total	48 274	20 279	27 995	38 398	15 400	22 998
Access to home ownership						
Access to home ownership for residents of the Kativik area	245	245		309	309	
Housing in isolated regions	(24)	(24)		64	64	
Sub-total	221	221		373	373	
Industrial support						
Support for the development of the Québec housing industry	588	588		688	688	
Various program in the termination phase (c)						
	265	277	(12)	5 365	5 341	24
Total	595 311	307 355	287 956	563 138	279 497	283 641

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2005		2004	
	Cost	Contributions	Cost	Contributions
		Gouvernement du Québec CMHC (a)		Gouvernement du Québec CMHC (a)
Contributions				
Cost of program		307 355		279 497
Administrative expenses (Note 5)		24 802		24 492
		<u>332 157</u>		<u>303 989</u>
		287 956		283 641
		<u>3 651</u>		<u>5 614</u>
		<u>291 607</u>		<u>289 255</u>

- a) Canada Mortgage and Housing Corporation.
b) In 2005, the Société d'habitation du Québec paid the Société de gestion immobilière SHQ a total of \$4.2 million (2004: \$1.9 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).

4. FEES

	2005	2004
Immobilière SHQ	501	685
Société de gestion immobilière SHQ	44	32
Gouvernement du Québec	35	65
Miscellaneous organizations	262	194
	<u>842</u>	<u>976</u>

5. ADMINISTRATIVE EXPENSES

	2005	2004
Salaries and other remuneration (Note 15)	21 058	22 602
Transportation and communications	1 604	1 391
Professional services	2 723	3 464
Maintenance and repairs	390	344
Rent	2 486	2 383
Materials and supplies	413	160
Miscellaneous subsidies	8	10
Interest on short-term borrowings (Note 9)	140	106
Depreciation of fixed assets	2 187	2 112
Other	47	43
	<u>31 056</u>	<u>32 615</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2005
(in thousands of dollars)

5. ADMINISTRATIVE EXPENSES (cont'd)

These administrative expenses are offset, to a great extent, by the following contributions:

	2005	2004
Gouvernement du Québec	24 802	24 492
Canada Mortgage and Housing Corporation	3 651	5 614
	<u>28 453</u>	<u>30 106</u>

6. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	27 524	1 240
Short-term investment, at cost, 3.40% to 3.59%	26 286	49 166
	<u>53 810</u>	<u>50 406</u>

7. ACCOUNTS RECEIVABLE

	2005	2004
Contribution receivable		
Gouvernement du Québec	3 995	21 074
Canada Mortgage and Housing Corporation	28 896	50 257
Subsidy beneficiaries	7 805	6 456
Société de gestion immobilière SHQ	731	486
Accrued interest	71	81
Other	210	136
	<u>41 708</u>	<u>78 490</u>

8. FIXED ASSETS

	2005			2004
	Cost	Accumulated depreciation	Net	Net
Fixed assets				
Leasehold improvements	442	44	398	
Equipment	4 587	3 801	786	1 044
	<u>5 029</u>	<u>3 845</u>	<u>1 184</u>	<u>1 044</u>
Intangible assets				
Computer equipment	13 440	8 767	4 673	3 759
Software	832	670	162	149
	<u>14 272</u>	<u>9 437</u>	<u>4 835</u>	<u>3 908</u>
Total	<u>19 301</u>	<u>13 282</u>	<u>6 019</u>	<u>4 952</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2005

(in thousands of dollars)

9. SHORT-TERM BORROWING

The Société d'habitation du Québec is authorized to take up short-term borrowings from financial institutions to a maximum of \$30 million and 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, 2005 was 3.69%.

Interest on the short-term borrowing for the fiscal year is posted to expenditures under "Administrative – Interest with short-term borrowing" (Note 5).

10. ACCOUNTS PAYABLE

	2005	2004
Subsidy beneficiaries	46 838	58 578
Suppliers and other	2 137	1 974
Société de gestion immobilière SHQ	274	358
Sums held on behalf of granting agencies (Note 14)	168	261
Gouvernement du Québec	52	45
Accrued interest	8	6
	<u>49 477</u>	<u>61 222</u>

11. PROVISION FOR VACATION TIME AND SICK LEAVE

	2005		2004	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	2 246	6 091	2 371	6 153
Provision for the year	1 863	7	1 826	681
Benefits paid during the year	<u>(2 017)</u>	<u>(938)</u>	<u>(1 951)</u>	<u>(743)</u>
Closing balance	<u>2 092</u>	<u>5 160</u>	<u>2 246</u>	<u>6 091</u>

12. DEFERRED CONTRIBUTION – CANADA MORTGAGE AND HOUSING CORPORATION

The deferred Canada Mortgage and Housing Corporation contribution is for new contributions for the fiscal years considered and designed to cover the expenses of future fiscal years under the AccèsLogis Québec program for cooperative and non-profit housing and for the Logement abordable Québec program. Variations during the fiscal year in the balance of the deferred contribution are as follows:

	2005	2004
Opening balance	59 395	48 805
New contributions for fiscal year	<u>23 042</u>	<u>60 119</u>
	82 437	108 924
Contributions posted to revenues for the fiscal year	<u>(43 648)</u>	<u>(49 529)</u>
Closing balance	<u>38 789</u>	<u>59 395</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2005

(in thousands of dollars)

13. ALLOWANCE FOR LOSSES ON LOAN GUARANTEES

	2005	2004
Opening balance	8 595	7 804
Allowance for the year	2 788	1 116
Fulfilment of guarantees	(458)	(325)
Closing balance	<u>10 925</u>	<u>8 595</u>

The allowance breaks downs by programs as follows:

	2005	2004
AccèsLogis Québec for non-profit, cooperative housing	6 401	4 869
Achat-Rénovation for non-profit, cooperative housing	1 889	1 889
Logement abordable Québec – social and community component	1 789	719
Non-profit housing – Private	562	562
Assistance for community housing	284	556
	<u>10 925</u>	<u>8 595</u>

A recoverable Gouvernement du Québec contribution is recorded to cover this provision.

14. SUMS HELD ON BEHALF OF GRANTING AGENCIES

The amounts received from funding organizations under the AccèsLogis Québec and Achat-rénovation programs for cooperative and not-for-profit housing are redistributed to organizations working in the cooperative and not-for-profit field.

	2005	2004
Opening balance	261	212
Plus:		
Sums received	1 910	1 798
Interest income	9	6
	<u>2 180</u>	<u>2 016</u>
Less:		
Amounts paid out	<u>2 012</u>	<u>1 755</u>
Closing balance	<u>168</u>	<u>261</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".

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2005

(in thousands of dollars)

15. PENSION PLANS

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

The Société's contributions charged to the year-end statement and recorded as administrative expenses amount to \$1.0 million (2004: \$0.8 million). The Société's liability towards these government plans is restricted to its contributions as an employer.

16. FINANCIAL INSTRUMENTS

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

The fair value of the provision for losses on loan guarantees and the corresponding Gouvernement du Québec contribution receivable is equal to the book value given that the provision is reassessed annually.

17. COMMITMENTS

AccèsLogis Québec program for non-profit, cooperative housing, Achat-Rénovation program for non-profit, cooperative housing Rénovation Québec, Revitalisation des vieux quartiers and Logement abordable Québec – social, community and private components.

The Société repays the principal and interest on all loans contracted under these programs, up to the grant amount committed by the Société. As at December 31, 2005, these commitments amount to \$287 million (2004: \$157 million).

18. CONTINGENCIES

Secured loans

For the AccèsLogis Québec program for non-profit cooperative housing, Achat-Rénovation program for non-profit, cooperative housing et Logement abordable – Social et communautaire, the Société guarantees the reimbursement of loans granted by financial institutions. These loan repayment guarantees cover a period of 25 or 35 years once the Société agrees to the extension. The amount of loans thus guaranteed totalled \$571 million at December 31, 2005 (2004: \$397 million).

Other guarantees

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 \$373 million as at December 31, 2005 (2004: \$386 million).

Programs for which a provision for losses is required are disclosed in Note 13.

Housing initiative in Nunavik program

Under this program, the Société made the commitment to make a contribution equal to the amounts cashed by the Office municipal d'habitation Kativik in rental arrears prior to December 31, 1999 up to an amount of \$2.9 million. The balance of this commitment was \$1.6 million at December 31, 2005 (2004: \$1.9 million).

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2005

(in thousands of dollars)

18. CONTINGENCIES (cont'd)**Lawsuits**

The balance of court proceedings in damages and interest instituted against the Société amounts to \$4.5 million. In the opinion of the Société, these lawsuits can result in no significant liability.

With regard to the balance of court proceedings in damages and interest instituted against Immobilière SHQ, any relative loss will be assumed by the housing offices and included in their operating deficit, which is subsidized by the Société. In the Société's opinion, no major liability can result from these proceedings.

19. RELATED PARTY TRANSACTIONS

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

20. COMPARATIVE FIGURES

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

SOCIÉTÉ D'HABITATION DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société d'habitation du Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal audit and investigations department carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, and reviews the financial statements.

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

Pierre Cliche
President and Chief Executive Officer

André Filion
Vice-President, Administration and Business Strategies

Québec, March 17, 2006

SOCIÉTÉ D'HABITATION DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have examined the balance sheet of the Société d'habitation du Québec as at December 31, 2005 and the revenues and expenses and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, March 17, 2006

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
(R.S.Q., c. S-14.001)

RESULTS

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
REVENUES		
Rental of space for events	\$1 945 066	\$1 973 964
Royalties (Note 4)	1 440 898	1 712 776
Auxiliary operations (Note 5)	1 647 184	1 599 701
Other	<u>270 345</u>	<u>254 190</u>
	<u>5 303 493</u>	<u>5 540 631</u>
EXPENSES		
Hosting of events - expenses (Note 6)	1 331 472	1 436 357
Administrative and operating expenses (Note 7)	7 822 172	8 309 005
Taxes	3 641 695	3 442 829
Financial expenses – net (Note 8)	<u>2 619 341</u>	<u>2 818 622</u>
	<u>15 414 680</u>	<u>16 006 813</u>
DEFICIT OF REVENUES OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(10 111 187)	(10 466 182)
Operating subsidy from the Gouvernement du Québec (Note 9)	<u>10 974 483</u>	<u>10 057 159</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES THE FOLLOWING ITEMS:	863 296	(409 023)
Gain on disposal of fixed assets	11 270	1 625
Gouvernement du Québec subsidy for fixed assets and deferred expenses (Note 9)	1 989 524	2 008 347
Depreciation of fixed assets	(2 973 122)	(2 930 242)
Amortization of intangible assets	(117 946)	(118 563)
Amortization of deferred contributions (Note 15)	1 112 376	1 027 730
Amortization of deferred expenses	<u>(59 354)</u>	<u>(59 354)</u>
SURPLUS (DEFICIT) REVENUES OVER EXPENSES	<u><u>\$826 044</u></u>	<u><u>\$(479 480)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**SURPLUS**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
OPENING BALANCE		
Previously established balance	\$518 288	\$931 687
Adjustment		
Posting to results to the operating subsidy used for the acquisition of fixed assets	<u>632 480</u>	<u>698 561</u>
Adjusted balance	1 150 768	1 630 248
Surplus (deficit) revenues over expenses	<u>826 044</u>	<u>(479 480)</u>
CLOSING BALANCE	<u>1 976 812</u>	<u>1 150 768</u>
Surplus invested in fixed assets	583 958	632 480
Surplus reserved for major maintenance	600 000	
Unappropriated surplus	<u>792 854</u>	<u>518 288</u>
	<u>\$1 976 812</u>	<u>\$1 150 768</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$858 019	\$4 420 742
Term deposits at rate of 3.45%	1 000 000	500 000
Accounts receivable	2 750 525	541 254
Prepaid expenses	980 927	958 997
	<u>5 589 471</u>	<u>6 420 993</u>
Fixed assets (Note 10)	98 458 816	85 767 955
Intangible assets (Note 11)	263 902	381 848
Deferred expenses at amortized cost	<u>74 215</u>	<u>133 569</u>
	<u>\$104 386 404</u>	<u>\$92 704 365</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 13)	\$20 178 849	\$2 914 256
Customer deposits	867 260	779 834
Deferred proceeds	147 390	158 905
Deferred Gouvernement du Québec subsidy (Note 14)	0	3 465 979
Instalments on long-term debt (Note 16)	3 896 786	3 723 125
	<u>25 090 285</u>	<u>11 042 099</u>
Deferred Gouvernement du Québec subsidy (Note 14)	7 580 818	5 763 847
Deferred contributions (Note 15)	23 975 591	25 087 967
Long-term debt (Note 16)	<u>44 230 648</u>	<u>48 127 434</u>
	<u>100 877 342</u>	<u>90 021 347</u>
EQUITY		
Contributed surplus (Note 18)	1 532 250	1 532 250
Surplus invested in fixed assets	583 958	632 480
Surplus reserved for major maintenance	600 000	
Unappropriated surplus	792 854	518 288
	<u>3 509 062</u>	<u>2 683 018</u>
	<u>\$104 386 404</u>	<u>\$92 704 365</u>

COMMITMENTS (Note 21)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Claude Pinault, Chairman of Board of Directors and Director
Paule-Anne Morin, Director, Adm. A., CMC

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**CASH FLOW**
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Cash receipts – clients	\$3 170 399	\$5 799 750
Cash receipts – Gouvernement du Québec subsidy	11 314 999	17 165 895
Disbursements – suppliers and staff members	(10 748 080)	(13 254 255)
Interest earned	83 500	80 789
Interest paid	(2 785 527)	(2 970 143)
Cash flows related to operating activities	<u>1 035 291</u>	<u>6 822 036</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(386 159)	(1 394 258)
Proceeds from the sale of fixed assets	<u>11 270</u>	<u>1 625</u>
Cash flows related to investment activities	<u>(374 889)</u>	<u>(1 392 633)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(3 723 125)</u>	<u>(3 558 583)</u>
Cash flows related to financing activities	<u>(3 723 125)</u>	<u>(3 558 583)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3 062 723)	1 870 820
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4 920 742</u>	<u>3 049 922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR¹	<u><u>\$1 858 019</u></u>	<u><u>\$4 920 742</u></u>

¹ Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$858 019	\$4 420 742
Term deposits	<u>1 000 000</u>	<u>500 000</u>
	<u><u>\$1 858 019</u></u>	<u><u>\$4 920 742</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Centre des congrès de Québec was established under a special act (R.S.Q., c. S-14.001) on July 1, 1993. Its purpose is to:

- manage and operate the 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Term deposits

Term deposits are recorded using the lower value method (cost or net realization value).

Fixed 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 fixed assets are recorded at cost.

Fixed assets are depreciated using the straight-line method according to their estimated service life as follows:

Buildings	40 years
Furniture and equipment	3 and 5 years

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized using the straight-line method over the estimated service life, i.e. 5 years.

Deferred expenses

Long-term debt issuing and management expenses are deferred and amortized using the straight-line method over the duration of the borrowing.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Deferred Gouvernement du Québec subsidy**

The government committed to paying the Société the amount it needs to be able to cover its obligations on its borrowings from the Financing Fund used to finance the acquisition of fixed 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 related to the acquisition of fixed assets and the cumulated amortization on these fixed assets and on the deferred expenses financed by these borrowings on the one hand and total Gouvernement du Québec subsidies received to enable the payment of these borrowings on the other.

Deferred contribution

The contributions received for the acquisition of amortizable fixed assets and those received in the form of amortizable fixed assets are reported and transferred to results using the same method and service life estimates as the fixed assets they pertain to.

Currency conversion

Assets and liabilities expressed in foreign currency and 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 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 fixed assets and deferred expenses represents the government contribution to repayment of the long-term debt for financing amortizable fixed assets and the related deferred expenses, which corresponds to the amortization of these fixed 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 interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances, short-term borrowings and short-term investments that are easy to convert in the short term to a known amount of cash whose value is not expected to change significantly.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006
3. CHANGE IN ACCOUNTING POLICY

Beginning this fiscal year, the Société reports the full operating subsidy to results. Formerly, the portion of this subsidy used to acquire amortizable fixed assets was posted to Deferred contributions and transferred to the fiscal year's results at the rate the fixed assets acquired using this subsidy were amortized. Applied retroactively, this change increases (decreases) the following items of the financial statements:

	<u>2006</u>	<u>2005</u>
RESULTS		
Amortization of deferred contributions	\$(48 522)	\$(66 081)
Surplus revenues over expenses	(48 522)	(66 081)
BALANCE SHEET		
Liabilities		
Deferred contributions	(583 958)	(632 480)
Equity		
Surplus	583 958	632 480

4. ROYALTIES

	<u>2006</u>	<u>2005</u>
Food services	\$1 160 759	\$1 388 297
Audiovisual services	264 953	304 949
Other	15 186	19 530
	<u>\$1 440 898</u>	<u>\$1 712 776</u>

5. AUXILIARY OPERATIONS

	<u>2006</u>	<u>2005</u>
Furnishings and furniture	\$707 268	\$739 235
Electricity, plumbing	379 397	393 982
Telecommunications	269 639	210 699
Audiovisual, sound and lighting	97 263	79 987
Information, box office and cloakroom	92 913	76 856
Security	36 456	36 297
Cleaning services	15 218	18 933
Other	49 030	43 712
	<u>\$1 647 184</u>	<u>\$1 599 701</u>

6. HOSTING OF EVENTS - EXPENSES

	<u>2006</u>	<u>2005</u>
Furnishings and furniture	\$684 401	\$756 728
Electricity, plumbing	140 884	149 431
Telecommunications	17 432	18 947
Audiovisual, sound and lighting	15 025	10 337
Information, box office and cloakroom	195 997	210 752
Security	102 004	112 963
Cleaning services	129 297	126 226
Other	46 432	50 973
	<u>\$1 331 472</u>	<u>\$1 436 357</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. OPERATING AND ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$4 217 600	\$4 130 515
Insurance and permits	142 152	148 048
Power and heating	710 864	761 928
Caretaking	338 181	339 193
Cleaning services	189 380	222 773
Specialized maintenance services	613 320	709 212
Maintenance and repairs	664 385	855 987
Promotion and communication	600 418	751 595
Professional and administrative services	233 870	280 525
Professional development	40 666	99 865
Bad and doubtful debts	71 336	9 364
	<u>\$7 822 172</u>	<u>\$8 309 005</u>

8. NET FINANCIAL EXPENSES

	2006	2005
Interest on long-term debt	\$2 685 943	\$2 874 825
Exchange (gain) loss	4 594	(2 210)
Other interest and bank expenses	12 570	12 321
	<u>2 703 107</u>	<u>2 884 936</u>
Interest on bank balances and term deposits	(83 766)	(66 314)
	<u>\$2 619 341</u>	<u>\$2 818 622</u>

9. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2006	2005
Operating subsidy:		
Subsidy received for the year	\$14 740 000	\$13 700 000
Receipt – Subsidy for debt service	<u>(6 491 488)</u>	<u>(6 518 615)</u>
	8 248 512	7 181 385
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 fixed assets	<u>2 684 993</u>	<u>2 875 774</u>
Total of the operating subsidy	10 974 483	10 057 159
Subsidy for fixed assets and deferred expenses:	<u>1 989 524</u>	<u>2 008 347</u>
	<u>\$12 964 007</u>	<u>\$12 065 506</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. FIXED ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net
Land	\$5 618 150		\$5 618 150
Buildings	116 839 154	\$25 027 047	78 763 434
Furniture and equipment	1 980 446	951 887	1 386 371
	<u>\$124 437 750</u>	<u>\$25 978 934</u>	<u>\$98 458 816</u>
			<u>\$85 767 955</u>

11. INTANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Software	<u>\$595 902</u>	<u>\$332 000</u>	<u>\$263 902</u>
			<u>\$381 848</u>

12. SHORT-TERM BORROWINGS

The Société is authorized, under a short-term borrowing plan, to contract short-term borrowings to a maximum of \$4 000 000 until June 30, 2008. At March 31, 2006, the Société had no short-term borrowings.

To ensure repayment of the capital and interest for borrowings from the Minister of Finance, under this borrowing scheme, the Gouvernement du Québec committed to paying the Société the amounts required to cover its obligations should it be unable to do so for one or more of its borrowings.

13. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Current operations	\$2 415 667	\$2 588 331
Fixed assets - Jointly-controlled entity	15 576 317	
Fixed assets - Other	4 736	303 229
GST/QST - fixed assets	<u>2 182 129</u>	<u>22 696</u>
	<u>\$20 178 849</u>	<u>\$2 914 256</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDY

	<u>2006</u>	<u>2005</u>
The deferred subsidy breaks down as follows:		
Opening balance	\$9 229 826	\$4 863 318
Amortization of fixed assets, intangible assets and deferred expenses financed over the long term	(1 989 524)	(2 008 347)
Interest on borrowings	<u>(2 684 993)</u>	<u>(2 875 774)</u>
	4 555 309	(20 803)
Government subsidies received	<u>3 025 509</u>	<u>9 250 629</u>
Closing balance	<u><u>\$7 580 818</u></u>	<u><u>\$9 229 826</u></u>

This balance pertains to the following balance sheet items:

Financing Fund borrowings (Note 16)	\$(48 127 434)	\$(51 850 559)
Unamortized cost of fixed assets, intangible assets and deferred expenses financed over the long term	<u>56 834 198</u>	<u>58 863 751</u>
	8 706 764	7 013 192
Interest on borrowings	(1 125 946)	(1 208 366)
Prepaid subsidy	<u> </u>	<u>3 425 000</u>
	<u><u>\$7 580 818</u></u>	<u><u>\$9 229 826</u></u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

15. DEFERRED CONTRIBUTIONS

	<u>2006</u>	<u>2005</u> (Note 3)
Deferred Gouvernement du Québec contribution:		
Opening balance	\$1 564 491	\$1 102 740
Contribution for acquisition of fixed assets	<u>1 564 491</u>	<u>733 882</u>
	<u>1 564 491</u>	<u>1 836 622</u>
Transfer to revenue of an amount equivalent to the depreciation of related fixed assets ¹	<u>(356 777)</u>	<u>(272 131)</u>
	<u>1 207 714</u>	<u>1 564 491</u>
Deferred City of Québec contribution:²		
Opening balance	2 317 226	2 397 825
Transfer to revenue of an amount equivalent to the depreciation of building ¹	<u>(80 599)</u>	<u>(80 599)</u>
	<u>2 236 627</u>	<u>2 317 226</u>
Deferred Government of Canada contribution:		
Opening balance	21 206 250	21 881 250
Transfer to revenue of an amount equivalent to the depreciation of building ¹	<u>(675 000)</u>	<u>(675 000)</u>
	<u>20 531 250</u>	<u>21 206 250</u>
	<u>\$23 975 591</u>	<u>\$25 087 967</u>

¹ Amortization of deferred contributions for the year amounts to \$1 112 376 (March 31, 2005: \$1 027 730).

² Represents the transfer by the Ville de Québec on January 1, 1994 of a building for the symbolic value of \$1 reported at the municipal assessment value at this date.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**16. LONG-TERM DEBT**

With the Gouvernement du Québec Financing Fund

	2006	2005
Notes payable		
Fixed rate of 5.468%/year (actual rate 5.543%), repayable in semi-annual instalments of \$2 873 946, ending April 26, 2007 ¹	\$45 458 908	48 592 039
Fixed rate of 5.385%/year (actual rate 5.457%), repayable in semi-annual instalments, ending October 1, 2012 ¹	1 915 362	2 074 976
Fixed rate of 4.306%/year (actual rate 4.376%), repayable in quarterly instalments, ending October 1, 2007 ¹	753 164	1 183 544
	<u>48 127 434</u>	<u>51 850 559</u>
Instalments due within one year	<u>(3 896 786)</u>	<u>3 723 125</u>
	<u>\$44 230 648</u>	<u>\$48 127 434</u>

Repayment of the principal on the long-term debt over the next five fiscal years is as follows:

2007	\$3 896 786
2008	42 634 513
2009	159 614
2010	159 614
2011	159 614

¹ To ensure repayment of the capital 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.

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.

The fair value of the deferred Gouvernement du Québec subsidy of \$7 580 818 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 is as follows:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$48 127 434</u>	<u>\$49 932 446</u>	<u>\$51 850 559</u>	<u>\$55 045 874</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

17. FINANCIAL INSTRUMENTS (cont'd)

Interest rate risk

The Société's financial assets and liabilities bear interest at a fixed rate and, consequently, the interest rate fluctuation risks to which they are exposed are minimal. Further, the Société is not exposed to an interest rate risk on these financial liabilities given that interest payments are made from a specific Gouvernement du Québec subsidy.

Credit risk

The Société's exposure to credit risk corresponds to the book value of its financial assets. The credit risk related to its assets is not concentrated in a single activity sector. The Société evaluates its assets on an ongoing basis and records a provision for losses when the accounts are deemed uncollectible.

Exchange risk

The Société carries out certain operation in foreign currency. It does not hold or issue financial instruments in order to manage the risks to which it is exposed. However, these risks do not significantly influence the Société's results and financial position.

18. CONTRIBUTED SURPLUS

Transfer by the City of Québec, on January 1, 1994, for the nominal fee of \$1, of a building recorded at its municipal assessment on that date.

19. RELATED PARTY TRANSACTIONS

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

20. FUTURE FRINGE BENEFITS

Pension plans

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

The Société's contributions charged to the year-end statement amount to \$181 837 (March 31, 2005: \$125 600). The Société's liability towards this Government plan is restricted to its contributions as an employer.

21. COMMITMENTS

Long-term contracts

The Société is committed under long-term contracts terminating on various dates up to January 30, 2009 for regular and specialized maintenance services.

Minimum future payments under these commitments are as follows:

2007	\$608 018
2008	393 402
2009	290 000
	\$1 291 420

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

21. COMMITMENTS (cont'd)**Old Municipal convention centre renovation project**

In October 2004, the Société obtained authorization, through a Gouvernement du Québec Order-in-Council, to renovate the old municipal convention centre and contract borrowings of up to \$17 200 000 to fund this project.

The mandate to perform this work was entrusted to the Société immobilière du Québec, a jointly-controlled entity. At March 31, 2006, the work done totalled \$15 576 317. All that remains to be done is to complete improvement of the entrance hall located on Avenue Honoré-Mercier. This work should be finished in mid-July and total \$1 100 000 for a total project cost of \$16 700 000.

22. COMPARATIVE FIGURES

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

MANAGEMENT'S REPORT

The financial statements of the Société du Centre des congrès de Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, and reviews the financial statements. It is assisted by an auditing committee whose members are not management. This committee meets with management and the Auditor 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Michel Bureau
Director Administration

Claude Pinault
President and Chief Executive Officer

Québec, June 16, 2006

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, 2006, the results, surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the change in accounting treatment of the operating subsidy disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 16, 2006

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
(R.S.Q., c. S-14.01)

RESULTS
for the year ended August 31, 2005

	2005		2004
	Operating Fund	Cultural Development Fund	Total
			Total
REVENUES			
Gouvernement du Québec subsidies (Note 3)	\$4 523 217		\$4 523 217
Performance production and presentation (Note 4)	1 014 883	\$361	1 015 244
Ticket office	1 841 815		1 841 815
Rent – auditoriums	836 084		836 084
Theatrical services	941 197		941 197
Customer service	119 739		119 739
Parking	110 483		110 483
Interest	80 672		80 672
Other	66 244		66 244
	<u>9 534 334</u>	<u>361</u>	<u>9 534 695</u>
EXPENSES (Note 5)			
Performance production and presentation (Note 4)	1 122 269	17 762	1 140 031
Box office operations	1 531 325		1 531 325
Auditorium operations	352 029	760	352 789
Theatrical services	1 249 629		1 249 629
Marketing	559 207		559 207
Administrative services	699 635		699 635
Maintenance and caretaking	1 453 928	274	1 454 202
Electricity	400 088		400 088
Municipal and school taxes	465 362		465 362
Financial expenses	545 580		545 580
Depreciation of fixed assets	1 130 134		1 130 134
	<u>9 509 186</u>	<u>18 796</u>	<u>9 527 982</u>
SURPLUS (INSUFFICIENT) REVENUES OVER EXPENSES	<u>\$25 148</u>	<u>\$(18 435)</u>	<u>\$6 713</u>

CHANGE IN FUND BALANCES
for the year ended August 31, 2005

	2005		2004
	Operating Fund	Cultural Development Fund	Total
			Total
OPENING BALANCE	\$100 000	\$1 033 156	\$1 133 156
Surplus (insufficient) revenues over expenses	<u>25 148</u>	<u>(18 435)</u>	<u>6 713</u>
CLOSING BALANCE	<u>\$125 148</u>	<u>\$1 014 721</u>	<u>\$1 139 869</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

BALANCE SHEET
as at August 31, 2005

	2005		2004
	Operating Fund	Cultural Development Fund	Total
			Total
ASSETS			
Current assets			
Cash on hand	\$1 458 004		\$1 458 004
Term deposits (Note 6)	1 345 136		1 345 136
Accounts receivable	626 256		626 256
Interfund payables, interest-free, no repayment conditions		\$1 014 721	
Gouvernement du Québec subsidies receivable (Note 7)	2 923 208		2 923 208
Supplies	79 074		79 074
Prepaid expenses	240 885		240 885
	<u>6 672 563</u>	<u>1 014 721</u>	<u>6 672 563</u>
Cash reserved for asset maintenance	90 299		90 299
Gouvernement du Québec subsidies receivable (Note 7)	7 656 555		7 656 555
Fixed assets (Note 8)	22 492 215		22 492 215
Deferred expenses	44 157		44 157
	<u>\$36 955 789</u>	<u>\$1 014 721</u>	<u>\$36 955 789</u>
LIABILITIES			
Current liabilities			
Bank loans (Note 9)	\$908 006		\$908 006
Deposits – ticket sales	1 247 769		1 247 769
Suppliers and accruals	1 568 936		1 568 936
Interfund payables, interest-free, no repayment conditions	1 014 721		1 014 721
Accrued interest	227 645		227 645
Gouvernement du Québec deferred subsidies (Note 10)	165 511		165 511
Revenue collected in advance	109 187		109 187
Instalments of the long-term debt (Note 11)	2 675 908		2 675 908
	<u>7 917 683</u>		<u>6 902 962</u>
Gouvernement du Québec deferred subsidies (Note 10)	18 042 031		18 042 031
Long-term debt (Note 11)	6 249 357		6 249 357
	<u>32 209 071</u>		<u>31 194 350</u>
EQUITY			
Gouvernement du Québec contribution (Note 12)	4 621 570		4 621 570
Closing fund	125 148	\$1 014 721	1 139 869
	<u>4 746 718</u>	<u>1 014 721</u>	<u>5 761 439</u>
	<u>\$36 955 789</u>	<u>\$1 014 721</u>	<u>\$36 955 789</u>

COMMITMENTS (Note 13)
CONTINGENCIES (Note 14)

On behalf of the Board of Directors,
Madeleine Nadeau
Adélard Guillemette

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**CASH FLOWS**

for the year ended August 31, 2005

		2005		2004
	Operating Fund	Cultural Development Fund	Total	Total
OPERATING ACTIVITIES				
Surplus (insufficient) revenues over expenses	\$25 148	\$(18 435)	\$6 713	\$20 827
Adjustments for:				
Depreciation of deferred subsidies	(1 813 184)		(1 813 184)	(1 452 884)
Depreciation of fixed assets	1 130 134		1 130 134	1 112 683
Amortization of deferred expenses	7 380		7 380	8 805
	(650 522)	(18 435)	(668 957)	(310 569)
Change in elements linked to operations				
Debtors	268 539		268 539	(460 975)
Supplies	(4 161)		(4 161)	8 382
Prepaid expenses	(78 812)		(78 812)	34 153
Subsidies receivable	(402 978)		(402 978)	(14 937)
Deferred expenses	(19 580)		(19 580)	(15 780)
Deposits – ticket sales	357 722		357 722	201 766
Suppliers and accruals	(882 750)		(882 750)	1 247 157
Accrued interest	(27 445)		(27 445)	(2 049)
Deferred subsidies	1 501 045		1 501 045	724 321
Revenue collected in advance	(9 361)		(9 361)	14 209
Cash flows related to operating activities	51 697	(18 435)	33 262	1 425 678
FINANCING ACTIVITIES				
Bank loans	(911 994)		(911 994)	724 000
Long-term debt	2 750 346		2 750 346	2 329 833
Repayment of long-term debt	(1 910 005)		(1 910 005)	(2 886 764)
Cash flows related to financing activities	(71 653)		(71 653)	167 069
INVESTMENT ACTIVITIES				
Cash reserved for asset maintenance	(13 094)		(13 094)	(50 319)
Acquisition of fixed assets	(664 079)		(664 079)	(361 870)
Cash flows related to investment activities	(677 173)		(677 173)	(412 189)
CHANGE IN CASH AND CASH EQUIVALENTS	(697 129)	(18 435)	(715 564)	1 180 558
OPENING CASH AND CASH EQUIVALENTS	3 518 704		3 518 704	2 338 146
INTERFUND TRANSFER	(18 435)	18 435		
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	\$2 803 140		\$2 803 140	\$3 518 704

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS August 31, 2005

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Grand Théâtre de Québec was established under the Act respecting the Société du Grand Théâtre de Québec (R.S.Q., c. S-14.01) to operate a performing arts dissemination enterprise and administer the Grand Théâtre de Québec or any other establishment the Government mandates it to manage.

These activities are designed, in particular, to provide a home for major artistic organizations, promote accessibility to the different forms of performing arts and promote Québec's artistic and cultural life.

Under section 32 of its incorporating statute, the Société funds its activities through the amounts it receives and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the Government decides otherwise.

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

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

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 too the creations of domestic and foreign artists. Apart from the interest it earns, it is comprised of transfers from the Operating Fund, gifts, sponsorships and other external contributions and the proceeds from ticket sales for the presentation of productions issuing from this Fund.

Proceeds reporting

The Société uses the deferred method to record proceeds. Appropriated proceeds are recorded in the fiscal year in which the related expenses are incurred. Unappropriated proceeds are recorded as proceeds when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain. Subsidies receivable for fixed 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.

Fixed assets

The property and building, acquired from the Gouvernement du Québec for a nominal value, are posted at the municipal assessment value at the date of acquisition. Other acquisitions are recorded at cost, which includes materials, direct labour, professional fees and other direct expenses. Fixed assets are amortized according to the straight-line method over their estimated service life, namely:

Building	40 years
Major extensions and repairs to building	15 years
Technical stage equipment	10 years
Office furniture and equipment	5 years
Data processing equipment	3 years

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

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

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

The Société's policy consists in presenting under cash and cash equivalents cash, short-term investments, that are very liquid and easy to convert into a known amount of cash whose value is unlikely to change significantly.

Pension plan

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

3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	<u>2005</u>	<u>2004</u>
Ministère de la Culture et des Communications		
- Operating subsidy *	\$2 334 062	\$2 491 485
Interest on long-term debt	538 044	585 982
Amortization of deferred		
Gouvernement du Québec subsidies **	<u>1 651 111</u>	<u>1 261 559</u>
	<u>\$4 523 217</u>	<u>\$4 339 026</u>

* The operating subsidy reflects property taxes of \$217 049 (2004: \$232 684) 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 \$490 210 (2004: \$461 255) 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 fixed assets, this amount includes a sum for the amortization of deferred expenses and an amount used to finance current expenses related to fixed assets maintenance. The total breaks down as follows:

	<u>2005</u>	<u>2004</u>
Fixed assets	\$1 130 134	\$1 112 683
Deferred expenses	7 380	8 805
Maintenance and repairs	513 597	112 327
Theatrical services	<u>27 744</u>	<u>27 744</u>
	<u>\$1 651 111</u>	<u>\$1 261 559</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**4. PERFORMANCE PRODUCTION AND PRESENTATION**

The Société exchanges goods and services with certain suppliers. These non-monetary transactions are entered in the Société's year-end statement at the fair value of the goods and services exchanged, which increased the Société's revenue and expenditure for performance production and presentation for an amount of \$141 954 (2004: \$201 989).

5. EXPENSES BY CATEGORY

	2005		2004
	Operating Fund	Cultural Development Fund	Total
			Total
Salaries and fringe benefits	\$3 468 227	\$9 920	\$3 478 147
Depreciation of fixed assets	1 130 134		1 130 134
Building maintenance and repairs	899 056		899 056
Ticket office sales costs	827 683		827 683
Artistic fees	596 143	6 463	602 606
Financial expenses	545 580		545 580
Insurance, municipal and school taxes	500 388		500 388
Advertising	497 790	2 413	500 203
Electricity	400 088		400 088
Security guard	242 643		242 643
Equipment purchases, maintenance and repairs	180 664		180 664
Transport et communications	89 475		89 475
Supplies	65 213		65 213
Professional fees	34 849		34 849
Equipment rental	31 253		31 253
	<u>\$9 509 186</u>	<u>\$18 796</u>	<u>\$9 527 982</u>
			<u>\$10 418 498</u>

6. TERM DEPOSITS

Term deposits bear interest at a rate varying from 1.00% to 2.40% (2004: 1.90% to 2.43%).

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt, the interest paid and not reimbursed on the bank loans and to reimbursement of capital on the long-term debt in the next fiscal year.

Those presented as long-term represent total Gouvernement du Québec commitments related to fixed assets and their maintenance minus reimbursement of capital on the long-term debt to be made in the next fiscal year. These subsidies are encashable in keeping with the instalments on the long-term debt related to them.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005**8. FIXED ASSETS**

	2005		2004	
	Cost or stated value	Accumulated depreciation	Net	Net
Land	\$4 621 570		\$4 621 570	\$4 621 570
Building	23 901 091	\$9 112 292	14 788 799	15 386 327
Major extensions and repairs to the building	5 094 041	3 347 931	1 746 110	1 654 983
Technical stage equipment	5 422 471	4 163 813	1 258 658	1 214 859
Office furniture and equipment	314 013	271 476	42 537	56 322
Data processing equipment	229 198	194 657	34 541	13 171
	<u>\$39 582 384</u>	<u>\$17 090 169</u>	<u>\$22 492 215</u>	<u>\$22 947 232</u>

The cost of additions and major repairs to the building includes an amount of \$245 106 (2004: \$72 327) which will begin to be amortized when the work has been completed.

9. BANK BORROWINGS

The Société has a credit line with a financial institution for its operations that is renewable annually on November 30. The amounts borrowed are authorized by the Gouvernement du Québec up to \$800 000 and bear interest at the prime rate. At August 31, 2005, the Société had not used this credit line.

The Gouvernement du Québec authorized the Société to borrow the following amounts for fixed assets maintenance:

	2005	2004
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	\$486 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$841 300 bearing interest at the prime rate, maturing on November 30, 2005.	290 000	
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$840 700 bearing interest at the prime rate, maturing on November 30, 2005.	84 006	
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$777 100 bearing interest at the prime rate.		680 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$870 500 bearing interest at the prime rate.		654 000
	<u>\$908 006</u>	<u>\$1 820 000</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for assets maintenance is \$2 539 200 (2004: \$3 346 100).

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
NOTES TO FINANCIAL STATEMENTS (cont'd)
August 31, 2005
10. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDIES

Deferred subsidies are related to fixed assets and their maintenance and property taxes and other expenses for future fiscal years. Changes in the balance for the fiscal year are as follows:

	2005	2004
Opening balance	\$18 519 681	\$19 248 244
Subsidies recognized as proceeds for the fiscal year	(1 271 734)	(1 291 707)
	<u>17 247 947</u>	<u>17 956 537</u>
Subsidies received during the year designed to cover expenses for future fiscal years	959 595	563 144
	<u>18 207 542</u>	<u>18 519 681</u>
Subsidies designed to cover expenses for the next fiscal year	(165 511)	(162 073)
	<u>18 042 031</u>	<u>18 357 608</u>
Closing balance	<u>\$18 042 031</u>	<u>\$18 357 608</u>

11. LONG-TERM DEBT

	Rate in effect	2005	2004
Borrowings from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec			
Fixed rate of 5.673%, repayable in annual instalments of \$173 708 until April 11, 2005 with a final instalment of \$1 910 792 on April 11, 2006	5.80%	\$1 910 792	\$2 084 500
Fixed rate of 6.0364%, repayable in annual instalments of \$182 369 until December 1, 2009 with a final instalment of \$1 276 580 on December 1, 2010	6.08%	2 188 423	2 370 792
Fixed rate of 4.311%, repayable in annual instalments of \$42 293 with a final instalment on October 1, 2008	4.49%	169 171	211 463
Fixed rate of 5.343%, repayable in annual instalments of \$211 837 with a final instalment on October 1, 2013	5.50%	1 906 532	2 118 369
Fixed rate of 4.106%, repayable in annual instalments of \$217 892 until May 10, 2010	4.31%	1 089 460	
Fixed rate of 4.90%, repayable in annual instalments of \$110 726 until July 16, 2020	5.03%	1 660 887	
Fixed rate of 9.50%, repayable in annual instalments of \$216 633 until April 1, 2004 with a final instalment of \$1 299 800	9.54%	<u>8 925 265</u>	<u>1 299 800</u>
		<u>8 925 265</u>	<u>8 084 924</u>
Instalments due within one year		<u>2 675 908</u>	<u>1 910 007</u>
		<u>\$6 249 357</u>	<u>\$6 174 917</u>

Repayment of principal on the long-term debt over the next five fiscal years is as follows:

2006	\$2 675 908
2007	765 116
2008	765 116
2009	765 116
2010	722 823

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

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

12. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The amount of the surplus contribution corresponds to the municipal assessment of the land and the date of acquisition.

13. COMMITMENTS

The Société has commitments to service suppliers for building cleaning, maintenance and repairs and for equipment. The minimum future payments regarding these commitments break down as follows:

2006	\$558 916
2007	425 207
2008	197 817

14. CONTINGENCIES

A lawsuit related to the bankruptcy of a show producer was launched against the Société. In management's opinion, the outcome of this dispute cannot be determined.

15. CASH FLOWS

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

	2005	2004
Cash on hand	\$1 458 004	\$1 791 982
Term deposit	1 345 136	1 726 722
	<u>\$2 803 140</u>	<u>\$3 518 704</u>

Interest on the long-term debt paid by the Société during the fiscal year totalled \$565 489 (2004: \$588 032).

During the fiscal year, fixed assets were acquired for a total cost of \$675 118 (2004: \$413 870), including fixed assets totalling \$144 375 (2004: \$133 336) included in accounts payable as at August 31, 2005. Outpayments totalling \$664 079 (2004: \$361 870) were made for the purchase of fixed assets.

16. FUTURE FRINGE BENEFITS**Pension plans**

The Société contributes to three pension plans in which certain staff members participate. Two of them are defined-contribution pension plans and include guaranteed payments upon retirement, loss of employment and death and the other is the interenterprise defined-benefit plan Pension Plan of Management Personnel (PPMP), which includes guarantees on retirement and death.

The Société's contributions charged to the year-end statement amount to \$178 587 (2004: \$176 985). The Société's liability towards these plans is restricted to its contributions as an employer.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

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

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

	2005			2004
	Sick leave	Vacation time	Total	Total
Opening balance	\$28 584	\$175 066	\$203 650	\$166 553
Charge for the year	39 339	229 295	268 634	301 998
Benefits paid during the year	(39 692)	(262 371)	(302 063)	(264 901)
Closing balance	<u>\$28 231</u>	<u>\$141 990</u>	<u>\$170 221</u>	<u>\$203 650</u>

17. FAIR VALUE OF FINANCIAL INSTRUMENTS
Gouvernement du Québec subsidy receivable

The fair value of subsidies receivable of \$10 579 763 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 as follows:

	2005	2004
Book value	\$8 925 265	\$8 084 924
Fair value	9 545 538	8 656 377

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.

18. RELATED PARTY TRANSACTIONS

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

19. COMPARATIVE FIGURES

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

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société du Grand Théâtre de Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Francine Grégoire
Director General

Jean-François Fusey, CA
Director of Administrative Services

Québec, November 23, 2005

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, 2005 and the results and surplus, change in fund balances and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 23, 2005

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
(R.S.Q., c. S-14.1)

RESULTS

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
REVENUES		
Rental of premises for events	\$7 281 388	\$6 283 458
Royalties (Note 4)	3 245 327	3 192 953
Ancillary operations (Note 5)	6 599 435	4 886 404
Rental free of charge (Note 6)	640 703	745 850
Other (Note 7)	930 048	982 696
	<u>18 696 901</u>	<u>16 091 361</u>
EXPENSES		
Hosting of events (Note 8)	5 061 997	4 009 314
Operating and administrative expenses (Note 9)	16 785 200	16 575 514
Municipal taxes	7 629 173	7 644 230
Loss on rental free of charge (Note 6)	640 703	745 850
Net financial expenses (Note 10)	15 434 688	14 369 459
	<u>45 551 761</u>	<u>43 344 367</u>
DEFICIT OF REVENUES OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(26 854 860)	(27 253 006)
Gouvernement du Québec subsidy (Note 11)	<u>32 244 899</u>	<u>31 532 512</u>
SURPLUS REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEMS:	5 390 039	4 279 506
Loss on depreciation of fixed assets	(18 147)	(25 792)
Gouvernement du Québec subsidy for fixed assets and deferred expenses (Note 11)	10 166 347	9 845 108
Amortization of fixed assets	(11 045 855)	(10 871 720)
Amortization of deferred expenses	690 019	690 019
Amortization of deferred long-term debt issuing and management fees	(229 249)	(183 609)
Income related to asset sold (2005: income related to asset sold)	<u>233 728</u>	<u>423 250</u>
SURPLUS REVENUES OVER EXPENSES	<u>\$5 186 882</u>	<u>\$4 156 762</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**SURPLUS**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
OPENING BALANCE		
Established balance	\$5 626 512	\$1 447 441
Adjustment		
Income reporting of government operating subsidy used for the acquisition of the fixed assets	<u>7 387 256</u>	<u>7 409 565</u>
Adjusted balance	13 013 768	8 857 006
Surplus revenues over expenses	<u>5 186 882</u>	<u>4 156 762</u>
CLOSING BALANCE	<u>\$18 200 650</u>	<u>\$13 013 768</u>
Excess invested in fixed assets	\$7 332 890	\$7 387 256
Unappropriated surplus	<u>10 867 760</u>	<u>5 626 512</u>
	<u>\$18 200 650</u>	<u>\$13 013 768</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

BALANCE SHEET
as at March 31, 2006

	2006	2005 (Note 3)
ASSETS		
Current assets		
Cash on hand	\$1 458 318	\$10 068 127
Short-term investments (Note 12)	1 499 535	4 000 000
Accounts receivable	2 068 478	1 984 070
Prepaid expenses	2 170 389	2 132 480
Gouvernement du Québec subsidy to be recovered (Note 14)	11 665 069	11 390 006
Receivable on sale of asset, rate of 4%	5 885 831	6 064 917
	<u>24 747 620</u>	<u>35 639 600</u>
Fixed assets (Note 13)	302 117 216	311 372 213
Deferred expenses, at amortized cost	1 959 255	2 100 068
Gouvernement du Québec subsidy to be recovered (Note 14)	<u>23 805 210</u>	<u>21 268 425</u>
	<u><u>\$352 629 301</u></u>	<u><u>\$370 380 306</u></u>
LIABILITIES		
Current liabilities		
Payables and accrued expenses	\$12 399 084	\$18 462 673
Customer deposits	2 274 476	1 933 722
Gouvernement du Québec deferred subsidy (Note 11)	9 249 850	7 261 752
Instalments on long-term debt (Note 17)	7 629 563	7 261 752
	<u>22 303 123</u>	<u>36 907 997</u>
Deferred revenues	6 715	20 146
Deferred contributions (Note 16)	11 187 636	11 877 655
Long-term debt (Note 17)	<u>300 931 177</u>	<u>308 560 740</u>
	334 428 651	357 366 538
SURPLUS	<u>18 200 650</u>	<u>13 013 768</u>
	<u><u>\$352 629 301</u></u>	<u><u>\$370 380 306</u></u>
COMMITMENTS (Note 21)		
CONTINGENCIES (Note 22)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Hamou
Michel Sabourin

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**CASH FLOW**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Note 3)
OPERATING ACTIVITIES		
Receipts – clients	\$18 709 068	\$15 251 345
Receipts – Gouvernement du Québec subsidy	30 349 550	46 249 250
Disbursements – suppliers and staff members	(29 607 551)	(30 202 908)
Interest earned	188 583	161 066
Interest paid	<u>(15 716 021)</u>	<u>(12 869 155)</u>
Cash flows related to operating activities	<u>3 923 629</u>	<u>18 589 598</u>
INVESTMENT ACTIVITIES¹		
Acquisition of fixed assets	(7 814 851)	(13 152 781)
Proceeds from the sale of fixed assets	<u>42 700</u>	<u>10 002 382</u>
Cash flows related to investment activities	<u>(7 772 151)</u>	<u>(3 150 399)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	(7 261 752)	(7 128 258)
Short-term borrowing		(127 000 000)
Long-term debt		<u>127 800 000</u>
Cash flows related to financing activities	<u>(7 261 752)</u>	<u>(6 328 258)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11 110 274)	9 110 941
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>14 068 127</u>	<u>4 957 186</u>
CASH AND CASH EQUIVALENTS AT THE END²	<u><u>\$2 957 853</u></u>	<u><u>\$14 068 127</u></u>

1 At March 31, 2006, the item Payables and accrued expenses included balances payable for the acquisition of fixed assets totalling \$4 463 397 (2005: \$10 426 543).

2 Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$1 458 318	\$10 068 127
Term deposit	<u>1 499 535</u>	<u>4 000 000</u>
Cash and cash equivalents	<u><u>\$2 957 853</u></u>	<u><u>\$14 068 127</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Palais des congrès de Montréal was established under a special act (R.S.Q., c. S-14.1) for the purpose of:

- managing and operating the Palais des congrès de Montréal;
- preparing development or operational plans for the Palais des congrès;
- carrying on, promoting and administering, such commercial and other activities as may foster the development of the Palais des congrès.

Under section 3 of the Act establishing it, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Short-term investments

Short-term investments are reported at the lower value (cost or net realization value).

Gouvernement du Québec subsidy recoverable

The Gouvernement du Québec committed to paying the Société the amounts it needs to be able to cover its obligations on its borrowings from the Financing Fund used to finance the acquisition of fixed assets and the issuing and management fees for these borrowings, 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 related to the acquisition of fixed assets and the cumulated amortization on these fixed assets and on the deferred expenses financed by these borrowings on the one hand and total Gouvernement du Québec subsidies received to enable the payment of these borrowings on the other.

Fixed assets

Fixed assets are recorded at cost. Fixed assets are depreciated over their estimated useful life according to the straight-line method as follows:

Building	40 years
Development	10 years
Furniture and equipment	10 years
Data processing equipment	5 years
Computer software	5 years
Leasehold improvements	Remaining term of lease

Deferred expenses

Issuing and management expenses on borrowings from the Financing Fund of the Gouvernement du Québec are deferred and amortized according to the straight-line method over the term of the borrowings.

Direct initial expenses incurred to lease office space on the ground floor are deferred and amortized using the straight-line method over the duration of the lease.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Deferred revenue**

Lease inducements paid by the lessor to the Société under a long-term lease for office space are amortized according to the sum-of-the-years'-digits method over the term of the lease (16 years). The amortization is applied against the rent.

Deferred contributions

The contributions received for the acquisition of amortizable fixed assets and those received in the form of amortizable fixed assets are reported and transferred to results using the same method and service life estimates as the fixed 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 fixed assets and deferred expenses represents the government contribution to repayment of the long-term debt for financing amortizable fixed assets and the related deferred expenses, which corresponds to the amortization of these fixed 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 interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

The Société' policy consists in presenting as cash and cash equivalents the bank balances and short-term investments that can easily be converted in the short term into a known amount whose value is unlikely to change significantly.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. CHANGE IN ACCOUNTING POLICY

Beginning this fiscal year, the Société reports the full operating subsidy to results. Formerly, the portion of this subsidy used to acquire amortizable fixed assets was posted to Deferred contributions and transferred to the fiscal year's results at the rate the fixed assets acquired using this subsidy were amortized. Applied retroactively, this change increases (decreases) the following items of the financial statements:

	2006	2005
Results		
Operating subsidy from the Gouvernement du Québec	\$489 227	\$526 067
Amortization of deferred contributions	(543 594)	(548 376)
Surplus revenues over expenses	(54 363)	(22 309)
Balance sheet		
Liability		
Deferred contributions	\$(7 332 889)	\$(7 387 256)
Surplus	7 332 889	7 387 256

4. ROYALTIES

	2006	2005
Ticket sales	\$463 651	\$531 465
Food services	1 782 028	1 969 743
Audiovisual services	870 537	609 341
Other	129 111	82 404
	<u>\$3 245 327</u>	<u>\$3 192 953</u>

5. ANCILLARY OPERATIONS

	2006	2005
Parking	\$877 582	\$855 646
Furnishings	1 487 328	1 274 738
Cleaning services	534 353	217 653
Audiovisual services	556 628	367 496
Telecommunications	822 295	536 233
Cloakroom attendants	241 838	189 507
Plumbing and electricity	1 678 039	1 235 843
Security	173 532	121 255
Other	227 840	88 033
	<u>\$6 599 435</u>	<u>\$4 886 404</u>

6. RENTAL FREE OF CHARGE

The Société rents two spaces free of charge to two entities in exchange for the partial expropriation of certain assets that they own, in order to do expansion work on Palais des congrès. These transactions are recorded at their fair value.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**7. OTHER PROCEEDS**

	2006	2005
Office rental	\$625 348	\$427 494
Administrative office subletting	304 700	304 700
Other		250 502
	<u>\$930 048</u>	<u>\$982 696</u>

8. HOSTING OF EVENTS – EXPENSES

	2006	2005
Salaries – event staff:		
Customer service	\$626 803	\$578 399
Parking lot attendants	105 081	104 046
Reception et Cloakroom attendants	747 701	700 683
Audiovisual technicians	418 076	403 573
Telecommunications	135 287	61 342
Layout	1 337 999	1 189 195
Maintenance	374 809	204 787
Audiovisual services	226 552	67 911
Telecommunications	121 354	109 196
Plumbing and electricity	386 982	227 040
Security	178 483	140 756
Other expenses	402 870	222 386
	<u>\$5 061 997</u>	<u>\$4 009 314</u>

9. OPERATING AND ADMINISTRATIVE EXPENSES

	2006	2005
Salaries and fringe benefits	\$6 961 351	\$6 868 219
Insurance and permits	291 187	368 814
Electricity and heating	1 884 779	1 945 023
Caretaking	785 899	738 842
Cleaning services	897 584	1 111 069
Specialized maintenance services	826 715	872 954
Maintenance and repairs	2 127 271	1 565 660
Amortization of deferred initial rental costs	59 340	27 758
Rent	620 136	615 440
Promotion and communications	1 181 986	1 218 379
Professional and administrative services	1 025 438	1 047 370
Doubtful and uncollectible accounts	39 666	50 735
Job training	83 848	145 251
	<u>\$16 785 200</u>	<u>\$16 575 514</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**10. NET FINANCIAL EXPENSES**

	2006	2005
Interest on long-term debt	\$15 603 281	\$13 132 362
Other interest and bank charges	19 990	1 398 163
	<u>15 623 271</u>	<u>14 530 525</u>
Interest on bank balances and term deposit	(188 583)	(161 066)
	<u>\$15 434 688</u>	<u>\$14 369 459</u>

11. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2006	2005
Operating subsidy:		
Subsidy granted for the year ¹	\$39 599 400	\$36 999 400
Receipt – Gouvernement du Québec subsidy owing	<u>(11 390 006)</u>	<u>(9 595 142)</u>
	28 209 394	27 404 258
Contribution to be recovered for the payment of interest on the debt contracted to finance fixed assets	<u>4 035 505</u>	<u>4 128 254</u>
Total operating subsidy	32 244 899	31 532 512
Subsidy for fixed assets and deferred expenses	<u>10 166 347</u>	<u>9 845 108</u>
	<u>\$42 411 246</u>	<u>\$41 377 620</u>

- 1 The Gouvernement du Québec deferred at March 31, 2006 was \$0. At March 31, 2005, it totalled \$9 249 850 and corresponded to the portion of the operating subsidy for the fiscal year ended March 31, 2006 that was prepaid at March 31, 2005.

12. SHORT-TERM INVESTMENTS

	2006	2005
Term deposit		\$4 000 000
Commercial paper, at rate of 3.75%, maturing on April 3, 2006	<u>\$1 499 535</u>	
	<u>\$1 499 535</u>	<u>\$4 000 000</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**13. FIXED ASSETS**

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Fixed assets				
Land	\$24 048 536		\$24 048 536	\$24 023 168
Building	349 137 299	\$82 847 427	266 289 872	275 232 850
Furniture and equipment	21 092 046	10 733 655	10 358 391	11 283 535
Developments	855 715	34 337	821 378	
Leasehold improvements	481 717	481 717		31 145
Data processing equipment	4 956 331	4 409 345	546 986	760 548
	<u>400 571 644</u>	<u>98 506 481</u>	<u>302 065 163</u>	<u>311 331 246</u>
Intangible assets				
Computer software	<u>1 992 578</u>	<u>1 940 525</u>	<u>52 053</u>	<u>40 967</u>
	<u>\$402 564 222</u>	<u>\$100 447 006</u>	<u>\$302 117 216</u>	<u>\$311 372 213</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, 2006, holdbacks payable to the Société immobilière du Québec to reimburse construction costs was \$4 463 397. 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, 2006 regarding the Palais des congrès expansion. Cumulated project costs at March 31, 2006 totalled \$271 603 323 and break down as follows:

	2006
Land	\$21 063 485
Building	244 351 704
Furniture and equipment	<u>6 188 134</u>
	<u>\$271 603 323</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. GOUVERNEMENT DU QUÉBEC SUBSIDY RECOVERABLE

	<u>2006</u>	<u>2005</u>
The recoverable subsidy breaks down as follows:		
Balance at the beginning	\$32 658 431	\$28 280 212
Amortization of fixed assets and long-term issuing and management fees	10 166 347	9 845 108
Interest on borrowings	<u>15 603 281</u>	<u>13 132 362</u>
	58 428 059	51 257 682
Government subsidies received	<u>(22 957 780)</u>	<u>(18 599 251)</u>
Balance at the end	<u><u>\$35 470 279</u></u>	<u><u>\$32 658 431</u></u>

This balance pertains to the following items of the financial statements:

Financing Fund borrowing (Note 17)	\$308 560 740	\$315 822 492
Unamortized balance of fixed assets and issuing and management fees financed over the long term	<u>(277 125 966)</u>	<u>(287 292 315)</u>
	31 434 774	28 530 177
Interest on borrowings	<u>4 035 505</u>	<u>4 128 254</u>
	<u><u>\$35 470 279</u></u>	<u><u>\$32 658 431</u></u>

15. SHORT-TERM BORROWINGS

The Société was authorized by the Gouvernement du Québec to contract short-term borrowings of up to \$27 900 000 until September 30, 2006 and then \$10 000 000 from that date to September 30, 2008 from financial institutions or the Minister of Finance, as manager of the Financing Fund, to contract these borrowing at variable or fixed rates, to make these financial commitments, to conclude the agreements needed for their realization and to issue any debt instruments.

To ensure repayment of the principal and interest on borrowings contracted with the Minister of Finance under the borrowing plan set up, the Gouvernement du Québec committed, after having ensured that the Société is unable to meet its obligations under one of these borrowings, to pay the amounts required to make up for this inability.

From financial institutions

The Société had authorized credit, renewable annually, on September 30, from a financial institution. As at March 31, 2006, the maximum amount that the Société could withdraw was \$500 000. Amounts used bear interest at the prime rate. At March 31, 2006, the prime rate was 5.50% (2005: 4.25%) and this credit had not been used.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

16. DEFERRED CONTRIBUTIONS

	2006	2005
Deferred Gouvernement du Québec contribution:		
Opening balance	\$372 386	\$393 074
Less:		
Transfer to revenues of an amount equal to the amortization of the related fixed assets ¹	20 688	20 688
	<u>351 698</u>	<u>372 386</u>
Deferred lender's contribution:		
Opening balance	422 773	475 696
Less:		
Transfer to revenues of an amount equal to the amortization of the related fixed assets ¹	52 923	52 923
	<u>369 850</u>	<u>422 773</u>
Deferred dealer's contribution:		
Opening balance	179 647	189 627
Less:		
Transfer to revenues of an amount equal to the amortization of the related fixed assets ¹	9 980	9 980
	<u>169 667</u>	<u>179 647</u>
Deferred Hydro-Québec contribution:		
Opening balance	102 849	109 277
Less:		
Transfer to revenues of an amount equal to the amortization of the related fixed assets ¹	6 428	6 428
	<u>96 421</u>	<u>102 849</u>
Deferred Government of Canada contribution:		
Opening balance	10 800 000	11 400 000
Less:		
Transfer to revenues of an amount equal to the amortization of the related fixed assets ¹	600 000	600 000
	<u>10 200 000</u>	<u>10 800 000</u>
	<u>\$11 187 636</u>	<u>\$11 877 655</u>

1 Amortization of the fiscal year's deferred contributions totalled \$690 019 (March 31, 2005: \$690 019).

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

17. LONG-TERM DEBT**From the Financing Fund of the Gouvernement du Québec**

	<u>2006</u>	<u>2005</u>
Note payable		
Fixed rate of 5.719% annually (effective rate of 5.795%), repayable in quarterly instalments of \$1 264 225, until March 31, 2007 and by an instalment of \$29 898 362 maturing October 1, 2007	\$29 897 501	\$30 682 294
Fixed rate of 5.234% annually (effective rate of 5.299%), repayable in quarterly instalments of \$1 172 832, until March 30, 2015 and by an instalment of \$23 094 301 maturing September 30, 2015	30 801 879	31 507 553
Fixed rate of 5.159% annually (effective rate of 5.223%), repayable in quarterly instalments of \$4 683 303, until April 1, 2013 and by an instalment of \$100 465 429 maturing October 1, 2013	124 494 958	127 329 528
Fixed rate of 4.6035% annually (effective rate of 4.658%), repayable in quarterly instalments of \$4 358 531, until February 6, 2011 and by an instalment of \$108 950 781 maturing August 6, 2011	<u>123 366 402</u>	<u>126 303 117</u>
	308 560 740	315 822 492
Less: Instalments due within one year	<u>7 629 563</u>	<u>7 261 752</u>
	<u><u>\$300 931 177</u></u>	<u><u>\$308 560 740</u></u>

Principal payments on the long-term debt to be paid for the next five fiscal years are as follows:

2007	\$7 629 563
2008	36 204 812
2009	7 492 904
2010	7 865 926
2011	8 257 582

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.

18. 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 FINANCIAL STATEMENTS (cont'd)
March 31, 2006**18. FINANCIAL INSTRUMENTS (cont'd)**

The fair value of the Gouvernement du Québec subsidy recoverable of \$35 470 279 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 as follows:

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt (including the short-term part)	<u>\$308 560 740</u>	<u>\$319 727 884</u>	<u>\$315 822 492</u>	<u>\$329 172 546</u>

Interest rate risk

Because the Société's financial interest-bearing assets and liabilities are at a fixed rate, the rate fluctuations to which it is exposed are minimal. Further, the Société is not exposed to an interest rate risk on its financial liabilities, given that interest is paid from a specific Gouvernement du Québec subsidy.

Credit risk

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

Exchange rate risk

Some of the Société's transactions are in foreign currency. It neither holds nor issues no financial instruments to manage the exchange rate risk to which it is exposed. However, these risks do not significantly affect the Société's results and financial situation.

19. RELATED PARTY TRANSACTIONS

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

20. FUTURE FRINGE BENEFITS**Pension plans**

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

The Société's contributions charged to the year-end statement amount to \$312 125 (2005: \$244 758). The Société's liability towards these Government plans is restricted to its contributions as an employer.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**21. COMMITMENTS**

The Société is committed to a long-term lease for office space, sublet in the context of Palais des congrès expansion and expiring in May 31, 2007. The minimum lease payments, less the amortization of deferred revenue (lease inducements) were estimated.

The Société is committed under long-term contracts expiring on various dates up to March 31, 2012 for guard, maintenance and specialized maintenance services.

The minimum future payments under these commitments break down as follows:

	Rent	Other
2007	\$408 785	\$3 969 009
2008	69 250	2 730 091
2009		1 878 005
2010		173 832
2011		173 832
2012		173 832
	<u>\$478 035</u>	<u>\$9 098 601</u>

22. CONTINGENCIES

Following the adoption of the Pay Equity Act on November 21, 1996, the Société performed a pay equity and wage relativity exercise that led to payment of a retroactive amount in 2002 and 2003. During the fiscal year ended March 31, 2006, the Société entered into an agreement with the two certified associations representing its employees in order to establish a separate pay program for all employees covered by their certification certificates. On the date the financial statements were prepared, the Société was unable to assess the amount it might have to pay, if applicable, given that the work related to this process was not yet completed. In the Société's opinion, no major liability can result. Consequently, no amount was posted in the financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société du Palais des congrès de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Paul Saint-Jacques
President and Chief Executive Officer

André Saucier, CGA
Director, Financial and Administration

Montréal, June 9, 2006

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, 2006 and the results, surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, given the retroactive application of the change in reporting the operating subsidy disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 9, 2006

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
(R.S.Q., c. S-16.001)

RESULTS AND EQUITY
for the year ended March 31, 2006

	2006	2005
REVENUES (Note 3)	<u>\$6 319 861</u>	<u>\$4 774 711</u>
Expenses		
Operating expenses by category (Note 4)		
Salaries and fringe benefits	1 056 059	800 246
Materials and supplies	740 439	703 406
Maintenance and repairs	663 495	637 474
Professional, administrative and other services	237 063	251 172
Municipal and school taxes	182 942	180 943
Caretaking	174 723	154 903
Travelling and communications	60 264	54 011
Advertising and promotion	40 075	46 581
Other charges	10 000	7 500
	<u>3 165 060</u>	<u>2 836 236</u>
Depreciation of fixed assets	<u>2 055 736</u>	<u>2 012 780</u>
	5 220 796	4 849 016
Other charges		
Financial expenses (Note 5)	961 266	1 013 307
Partial financing of Bécancour's water supply and sewer systems (Note 11)	<u>47 421</u>	<u>47 103</u>
	<u>6 229 483</u>	<u>5 909 426</u>
NET GAINS (NET LOSSES)	90 378	(1 134 715)
EQUITY AT THE BEGINNING	<u>13 686 636</u>	<u>14 821 351</u>
EQUITY AT THE END	<u><u>\$13 777 014</u></u>	<u><u>\$13 686 636</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOURBALANCE SHEET
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$984 498	\$709 566
Term deposits, at cost		500 000
Accounts receivable (Note 6)	1 862 951	829 428
Spare parts inventory	201 810	204 173
Prepaid expenses	<u>105 609</u>	<u>102 443</u>
	3 154 868	2 345 610
Deferred issuing and management fees – amortized cost	80 233	51 100
Land inventory	5 478 211	5 437 565
Fixed assets (Note 7)	<u>26 104 368</u>	<u>26 170 734</u>
	<u>\$34 817 680</u>	<u>\$34 005 009</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	\$385 212	\$312 480
Accrued interest on long-term debt	425 306	467 332
Holdback on contracts	60 248	15 615
Deferred product	<u>166 636</u>	<u>205 681</u>
	1 037 402	1 001 108
Provision for sick leave (Note 14)	131 708	84 268
Deferred government assistance - amortized cost (Note 8)	1 871 556	1 232 997
Long-term debt (Note 10)	<u>18 000 000</u>	<u>18 000 000</u>
	21 040 666	20 318 373
EQUITY	<u>13 777 014</u>	<u>13 686 636</u>
	<u>\$34 817 680</u>	<u>\$34 005 009</u>

COMMITMENTS (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Henri Boudreau, President
Jean Rousseau, Vice-President

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
CASH FLOW

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net gains (net losses)	\$90 378	\$(1 134 715)
Adjustments for:		
Amortization of government assistance	(76 106)	(77 500)
Amortization of fixed assets	2 055 736	2 012 780
Amortization of issuing and management fees	14 867	17 363
Gain on sale of terrains	(32 428)	
(Gain) loss on disposal of fixed assets	24 573	(147 545)
	<u>2 077 020</u>	<u>670 383</u>
Acquisition of property	(48 307)	
Proceeds from sale of property	40 089	
Changes in assets and liabilities related to operations (Note 12)	<u>(995 225)</u>	<u>(475 307)</u>
Cash flows related to operating activities	<u>1 073 577</u>	<u>195 076</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(1 969 396)	(935 856)
Proceeds from disposal of fixed assets	<u>86</u>	<u>147 545</u>
Cash flows related to investment activities	<u>(1 969 310)</u>	<u>(788 311)</u>
FINANCING ACTIVITIES		
Government assistance	714 665	358 211
Issuing and management fees	<u>(44 000)</u>	
Cash flows linked to financing activities	<u>670 665</u>	<u>358 211</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(225 068)	(235 024)
CASH AND CASH EQUIVALENTS AT THE BEGINNING	<u>1 209 566</u>	<u>1 444 590</u>
CASH AND CASH EQUIVALENTS AT THE END (Note 12)	<u>\$984 498</u>	<u>\$1 209 566</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du parc industriel et portuaire de Bécancour was established under a special act (R.S.Q., c. S-16.001) for the purpose of fostering the economic development of Québec by developing and operating, with self-financing as an objective, an industrial park with harbour facilities within the territory of the town of Bécancour. Under federal and provincial tax legislation, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Revenue reporting

Revenues from port and industrial water services are recorded when rendered. The Société reports its basic rent using the straight-line method over the duration of leasing contracts. Revenue from easements are reported when easements are granted.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents, bank balances and short-term investments that are easily converted in the short term into a known amount of cash whose value is unlikely to change significantly.

Deferred issuing and management fees

Long-term debt issuing fees are recorded at cost and amortized using the straight-line method over the duration of the corresponding debt.

Spare parts inventory

The spare parts inventory is evaluated at the lesser value (cost or replacement value). The cost is established using the first in-first out method.

Property inventory

The properties in inventory are recorded at the lesser value (cost or net realization value). The municipal and school taxes and interest related to the purchase of these properties are posted to operations.

Fixed assets

Fixed assets are recorded at cost. They are depreciated on a straight-line basis at the following rates:

Buildings, storage areas and parking space	2 1/2% to 5%
Harbour facilities	2 1/2% to 20%
Vehicles	20%
Equipment	6 2/3% to 10%
Water supply and sewer systems	3 1/3% to 5%
Industrial water plant and distribution system	2 1/2% and 5%
Roads and streets	4% and 5%
Rail network	2 1/2%
Office furniture and equipment	10% and 20%

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

The Société regularly examines the book value of its fixed assets, comparing it to the non-actualized future cash flows that should be generated by the assets. Any surplus in book value over the fair value is posted to results for the period in which the depreciation was determined.

Deferred government assistance

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

Pension plan

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

3. REVENUES

	<u>2006</u>	<u>2005</u>
Operating income		
Port services	\$2 958 101	\$1 955 372
Industrial water service	1 193 946	1 131 519
City of Bécancour's reimbursement of certain maintenance costs	850 000	850 000
Building rental	608 020	567 067
Interest on cash and term deposits	36 193	29 757
Gain (loss) on disposal of fixed assets	(24 573)	147 545
Amortization of government assistance	76 106	77 500
Other revenues	45 440	15 951
	<u>5 743 233</u>	<u>4 774 711</u>
Revenues related to property inventory		
Revenues from sale of properties	40 089	
Cost of land sold	7 661	
	<u>32 428</u>	
Public services publics related to sale of properties	51 790	
Land-use easements	492 410	
	<u>576 628</u>	
	<u>\$6 319 861</u>	<u>\$4 774 711</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

**4. OPERATING COSTS BY ACTIVITY SECTOR,
BEFORE AMORTIZATION OF FIXED ASSETS**

	2006	2005
Overall administration	\$1 190 692	\$897 225
Industrial water plant and distribution system	811 525	752 773
Buildings	338 166	375 060
Port facilities	309 807	348 928
Transport networks	269 417	267 408
Vehicles and equipment	169 677	126 463
Drinking water supply and sewage systems	75 776	68 379
	<u>\$3 165 060</u>	<u>\$2 836 236</u>

5. FINANCIAL FEES

	2006	2005
Interest on long-term debt	\$946 293	\$993 048
Amortization of issuing and management fees	14 867	17 363
Interest on bank borrowing	106	2 896
	<u>\$961 266</u>	<u>\$1 013 307</u>

6. ACCOUNTS RECEIVABLE

	2006	2005
Clients	\$1 022 116	\$416 528
Government assistance	740 887	358 211
Other	99 948	54 689
	<u>\$1 862 951</u>	<u>\$829 428</u>

7. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Land	\$28 069		\$28 069
Buildings, storage areas and parking space	3 482 781	\$2 276 369	1 206 412
Port facilities	39 226 927	22 663 580	16 563 347
Vehicles and equipment	695 613	636 413	59 200
Water supply and sewer systems	6 890 181	4 692 395	2 197 786
Industrial water plant and distribution system	12 024 020	8 827 730	3 196 290
Transportation network:			
Roads and streets	9 894 684	8 122 200	1 772 484
Rail network	1 472 564	429 391	1 043 173
Office furniture and equipment	277 764	240 157	37 607
	<u>\$73 992 603</u>	<u>\$47 888 235</u>	<u>\$26 104 368</u>
			<u>\$26 170 734</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

8. DEFERRED GOVERNMENT ASSISTANCE – AMORTIZED COST

	2006	2005
Gouvernement du Québec	\$889 848	\$921 067
Gouvernement du Canada	325 628	311 930
Ville de Bécancour	656 080	
	<u>\$1 871 556</u>	<u>\$1 232 997</u>

9. 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, 2006, the prime rate was 5.5% (2005: 4.25%) and the balance owing on this borrowing was zero.

10. LONG-TERM DEBT

	2006	2005
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 4.951%, without terms and conditions for repayment of capital, maturing in April 2006		\$8 000 000
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 3.715%, without terms and conditions for repayment of capital, maturing April 2008	\$4 000 000	
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 6.186%, without terms and conditions for repayment of capital, maturing October 2012	10 000 000	10 000 000
Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 4.85%, without terms and conditions for repayment of capital, maturing December 2015	4 000 000	
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

11. COMMITMENTS
Partial financing of Bécancour's water supply and sewer systems

Under an agreement with the town of Bécancour, ratified by the Government 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, 2006, this commitment was \$293 000 (2005: \$340 000).

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

12. CASH FLOWS

The additional cash flow information is as follows:

	2006	2005
Changes in assets and liabilities related to operations		
Accounts receivable	\$(1 033 523)	\$(465 878)
Spare parts inventory	2 363	(6 221)
Prepaid expenses	(3 166)	15 313
Accounts payable and accruals	72 732	12 769
Accrued interest on the long-term debt	(42 026)	(833)
Deferred revenues	(39 045)	(25 600)
Provision for sick leave	47 440	(4 857)
	<u>\$(995 225)</u>	<u>\$(475 307)</u>
Cash and cash equivalents		
Cash on hand	\$984 498	\$709 566
Term deposits		500 000
	<u>\$984 498</u>	<u>\$1 209 566</u>
Additional information		
Interest paid on long-term debt	<u>\$988 319</u>	<u>\$993 880</u>

13. RELATED PARTY TRANSACTIONS

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

14. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$41 433 (2005: \$26 700). The Société's liability towards this Government plan is restricted to its contributions as an employer.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

	<u>2006</u>	<u>2005</u>
Opening balance	\$84 268	\$89 125
Charge for the year	63 512	20 383
Benefits paid during the year	<u>(16 072)</u>	<u>(25 240)</u>
Closing balance	<u><u>\$131 708</u></u>	<u><u>\$84 268</u></u>

15. FINANCIAL INSTRUMENTS
Fair value

The fair value of the elements of assets and short-term liabilities is equal to their book value given that they mature in the near future.

The fair value of the long-term debt is determined using the capitalized value of future cash flows under current funding agreements, based on market rates available to the Gouvernement du Québec for borrowings with similar conditions and terms.

The following chart shows the book value and the fair value of the Société's long-term financial instruments:

	<u>2006</u>	<u>2005</u>
Long-term debt:		
Book value	\$18 000 000	\$18 000 000
Fair value	19 302 108	19 510 740

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 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.

16. COMPARATIVE FIGURES

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

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**MANAGEMENT'S REPORT**

The financial statements of the Société du parc industriel et portuaire de Bécancour were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

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

Danielle Hébert, CA
Director of Finance

Me Guy Leblanc
President and Chief Executive Officer

Bécancour, May 9, 2006

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, 2006 and the results and cash flow statements for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, May 9, 2006

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC
(R.S.Q., c. S-17)

CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 2005, with comparative figures for 2004
(in thousands of dollars)

	2005	2004 (Restated Note 1)
REVENUE (Note 3)	<u>1 374 568</u>	<u>1 179 300</u>
OPERATING EXPENSES:		
Cost of goods sold and services	1 170 582	1 040 564
Selling, general and administrative expenses	121 297	105 507
Amortization	<u>80 312</u>	<u>72 017</u>
	<u>1 372 191</u>	<u>1 218 088</u>
OPERATING EARNING (LOSS) FROM CONTINUING OPERATIONS	2 377	(38 788)
Share of earnings (loss) of entities subject to significant influence	2 450	(105)
Dividend and interest income on long-term investments	<u>7 720</u>	<u>10 375</u>
Operating earning (loss) from continuing activities before the undernoted items	12 547	(28 518)
Net unrealized gain (loss) loss on investment companies	15 830	(31 416)
Provision for losses on other long-term investments	(32 198)	(65 603)
Impairment of property, plant and equipment and other assets	(7 320)	(10 930)
Net gain on disposal of long-term investment (Note 4)	<u>122 119</u>	<u>80 016</u>
OPERATING EARNINGS (LOSS) FROM CONTINUING ACTIVITIES	110 978	(56 451)
Financial (expenses) income (Note 5)	(13 598)	5 381
Other income	<u>10 815</u>	<u>8 081</u>
EARNINGS (LOSS) FROM CONTINUING ACTIVITIES (Note 3)	108 195	(42 989)
Loss from discontinued operations (Note 6)	<u>(38 094)</u>	<u>(9 167)</u>
NET EARNINGS (LOSS) (Note 3)	<u>70 101</u>	<u>(52 156)</u>

See accompanying notes to consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF DEFICIT
year ended December 31, 2005, with comparative figures for 2004
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
BALANCE, BEGINNING OF YEAR:		
As previously reported	(402 655)	(351 528)
Restatement due to the change in accounting policy related to start-up costs (Note 1)	(16 541)	(14 598)
Restatement due to the change in accounting policy related to asset retirement obligations		(914)
As restated	<u>(419 196)</u>	<u>(367 040)</u>
NET EARNINGS (LOSS)	<u>70 101</u>	<u>(52 156)</u>
BALANCE, END OF YEAR	<u>(349 095)</u>	<u>(419 196)</u>

See accompanying notes to consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED BALANCE SHEET

December 31, 2005, with comparative figures for 2004

(in thousands of dollars)

	2005	2004 (Restated Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	175 998	99 282
Temporary investments	7 399	1 022
Accounts receivable	244 259	183 039
Inventories	176 222	157 890
Prepaid expenses	8 507	10 526
Current assets of businesses held for sale (Note 6)	66 905	79 410
Current portion of long-term investments (Note 7)	73 466	39 634
Current portion of other assets (Note 9)	1 466	1 319
	<u>754 222</u>	<u>572 122</u>
Long-term assets of businesses held for sale (Note 6)	9 701	107 288
Long-term investments (Note 7)	497 126	577 728
Property, plant and equipment (Note 8)	1 158 135	1 191 864
Goodwill	919	919
Other assets (Note 9)	<u>102 268</u>	<u>106 947</u>
TOTAL ASSETS	<u>2 522 371</u>	<u>2 556 868</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Bank loans	8 548	8 615
Accounts payable and accrued liabilities	146 957	197 837
Current liabilities of businesses held for sale (Note 6)	41 253	71 557
Current portion of long-term debt (Note 10)	27 628	156 427
Current portion of share subscriptions	3 854	9 086
Current portion of other long-term liabilities (Note 11)	1 791	996
	<u>230 031</u>	<u>444 518</u>
Long-term liabilities of businesses held for sale (Note 6)	12 328	34 947
Long-term debt (Note 10)	417 659	280 982
Share subscriptions	7 812	14 247
Other long-term liabilities (Note 11)	30 296	26 816
Shareholder's equity:		
Share capital (Note 12)	2 173 340	2 173 340
Deficit	(349 095)	(419 196)
Foreign currency translation adjustments		1 214
	<u>1 824 245</u>	<u>1 755 358</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>2 522 371</u>	<u>2 556 868</u>

COMMITMENTS AND GUARANTEES (Note 18)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors,
Richard J. Renaud, Director
Jean-Pierre Mortreux, Director

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2005, with comparative figures for 2004
(in thousands of dollars)

	2005	2004 (Restated Note 1)
OPERATING ACTIVITIES		
Earnings (loss) from continuing activities	108 195	(42 989)
Adjustments for:		
Amortization	80 312	72 017
Share of (earnings) loss of entities subject to significant influence	(2 450)	105
Net unrealized (gain) losses on investment companies	(15 830)	31 416
Provision for losses on long-term investments	32 198	65 603
Impairment of property, plant and equipment and other assets	7 320	10 930
Net gain on disposal of long-term investments	(122 119)	(80 016)
Foreign exchange gain on long-term debt	(5 725)	(25 050)
Dividends received from entities subject to significant influence	4 728	3 358
Employee future benefits	2 480	2 032
Capitalized interest	3 559	(3 225)
Other, net	616	271
	93 284	34 452
Net change in non-cash operating working capital items (Note 13)	(85 248)	(80 318)
Cash flows from continuing operating activities	8 036	(45 866)
Cash flows from discontinued operating activities	6 011	(9 131)
Cash flows from operating activities	14 047	(54 997)
INVESTING ACTIVITIES		
Temporary investments	(6 376)	95 058
Acquisitions of long-term investments (Notes 3 and 14)	(8 177)	(22 933)
Disposal of businesses and of long-term investments (Notes 15)	189 555	342 069
Additions to property, plant and equipment (Notes 3 and 13b))	(84 920)	(173 752)
Other investing activities (Note 13b))	(11 477)	(16 350)
Cash flows from continuing investing activities	78 605	224 092
Cash flows from discontinued investing activities	(3 201)	(31 609)
Cash flows from investing activities	75 404	192 483
FINANCING ACTIVITIES		
Bank loans	(68)	(926)
Increase in long-term debt	32 005	135 489
Repayment of long-term debt	(25 463)	(253 783)
Payment of share subscriptions	(10 851)	(5 805)
Other financing activities	(935)	(93)
Cash flows from continuing financing activities	(5 312)	(125 118)
Cash flows from discontinued financing activities	(8 669)	(810)
Cash flows from financing activities	(13 981)	(125 928)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	75 470	11 558
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	102 117	90 559
CASH AND CASH EQUIVALENTS, AT END OF YEAR FROM CONTINUING ACTIVITIES	175 998	99 282
CASH AND CASH EQUIVALENTS, AT END OF YEAR FROM DISCONTINUED ACTIVITIES	1 589	2 835
CASH AND CASH EQUIVALENTS, END OF YEAR	177 587	102 117

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
year ended December 31, 2005, with comparative figures for 2004
(in thousands of dollars)

CASH AND CASH EQUIVALENTS ARE COMPRISED OF:

	<u>2005</u>	<u>2004</u> (Restated Note 1)
Cash on hand and bank balances	36 084	74 604
Short-term liquid investments	151 891	35 487
Bank overdrafts	<u>(10 388)</u>	<u>(7 974)</u>
	<u>177 587</u>	<u>102 117</u>

SUPPLEMENTAL DISCLOSURE RELATED TO CASH FLOWS (Note 13):

Interest paid	<u>23 275</u>	<u>28 436</u>

See accompanying notes to consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

year ended December 31, 2005

(in thousands of dollars)

The Company was created in 1962 under the Act respecting Société générale de financement du Québec, which was amended in 1996. The Government of Québec is the sole shareholder. The purpose of the Company is to carry out economic development projects, particularly in the industrial sector, in cooperation with partners, in compliance with accepted profitability requirements and the economic development policies of the Government of Québec. It has established a presence mainly in the following sectors: Chemicals, Energy, Environment; Mines, Metals, Materials; Forest Products; Life Sciences, Information and Communication Technologies and Agri-Food.

1. CHANGES IN ACCOUNTING POLICIES

During the year, the Company changed, with retroactive restatement, its accounting policy with respect to the treatment of costs incurred during the start-up period of a business. These costs are now expensed as incurred instead of being deferred and amortized over a period of three to five years. This change in accounting policy resulted in a decrease in other assets as at December 31, 2004 of \$16 541 000, an increase in deficit as at January 1, 2004 of \$14 598 000 and an increase in net loss for the year ended December 31, 2004 of \$1 943 000 resulting in a total increase to deficit of \$16 541 000 as at January 1, 2005.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Principles of consolidation**

These consolidated financial statements include the accounts of the Société générale de financement du Québec, its subsidiaries and joint ventures. The accounts of the subsidiaries are accounted for using the consolidation method, whereas the accounts of the Company's joint ventures are accounted for using the proportionate consolidation method.

b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the use of estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. The principal estimates are related to the valuation of venture capital investments and other long-term investments, property, plant and equipment and goodwill. Actual results could differ from those estimates. Those estimates are reviewed periodically and, as adjustments become necessary, they are reported in operations in the period in which they are known.

c) Fair value of financial instruments

The Company has estimated the fair value of its financial instruments based on current interest rates, related market values and current pricing of financial instruments with comparable terms. Unless indicated otherwise, the carrying value of these financial instruments, especially short-term ones such as cash and cash equivalents, temporary investments, accounts receivable, bank loans, and accounts payable and accrued liabilities, approximates their fair value.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term liquid investments with maturities of three months or less and bank overdrafts.

e) Temporary investments

Temporary investments consist primarily of commercial paper and bankers' acceptances with maturities exceeding three months and are recorded at the lower of cost and market value.

f) Inventories

Inventories are valued at the lower of cost and market value. Cost is determined by using the average cost method and the first-in, first-out method, and market value is defined as replacement cost or net realizable value.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
g) Long-term investments

Investments in which the Company can exercise significant influence are recorded using the equity method. This involves recording the Company's share of the earnings of entities subject to significant influence from the date of acquisition.

Investments in which the Company does not exercise any control or significant influence are recorded at cost.

If an other than temporary decline in value occurs, the Company's policy is to write down the investment to its estimated net realizable value.

Speculative investments in companies for the purpose of supporting their development are considered venture capital investments. 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 recorded based on the quoted market price. When this value does not adequately represent the fair value, such investments are valued using the same valuation method as for unlisted shares. Shares with quoted values 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. Valuations are reviewed annually by a valuation committee.
- ii) Unlisted shares are valued in accordance with generally accepted valuation techniques and are reviewed annually by a valuation committee.

h) Property, plant and equipment

Property, plant and equipment are recorded at cost, less related government grants, which are recorded when eligible expenses are incurred. Cost consists of acquisition or construction costs, including interest expenses incurred during the construction of plants. Amortization is calculated mainly using the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Period</u>
Building	10 to 40 years
Machinery and equipment	3 to 25 years
Other	3 to 10 years

No amortization is recorded on property, plant and equipment under construction or development or that has been removed from service for an extended period of time.

When an asset retirement obligation exists, the fair value of the liability for this obligation is recognized in the period in which the obligation is incurred, assuming a reasonable estimate can be made. The resulting costs are capitalized to property, plant and equipment. The company amortizes the asset retirement cost capitalized to plant, property and equipment and recognizes accretion expense in connection with the discounted liability over the estimated remaining useful life of the asset.

i) Impairment of long-term assets

A long-term asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This recoverability is measured by comparing the carrying amount of assets with the estimated amount of future undiscounted cash flows directly related to the use of assets. An impairment loss is recognized if the fair value, calculated based on discounted cash flows generated during the asset's life, is below the asset's carrying amount.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**j) Disposal of long-lived assets and discontinued operations**

A long-lived asset held for sale is classified as held for sale in the period in which all the required criteria have been met. A long-lived asset held for sale must be measured at the lower of its carrying amount or fair value, less disposal costs, and must not be amortized as long as it is recorded as an asset held for sale. Assets and liabilities classified as held for sale are recorded on the balance sheet as assets held for sale and as liabilities of businesses held for sale.

A long-lived asset held for disposal other than by sale, in particular by discontinuance, before the end of its previously estimated useful life, is classified as an asset held for use until its disposal and the amortization estimates must be reviewed based on the asset's shorter useful life.

The operating results of a component that has either been disposed by sale, or abandoned or is classified as held for sale should be 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 Company as a result of the disposal transaction, and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction.

k) Goodwill

Goodwill represents the excess of the cost of acquired businesses over the net value attributed to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is a comparison of the fair value of the reporting units of the Company with their carrying value. When the carrying value of a reporting unit exceeds its fair value, an impairment loss is recognized for an amount equal to the excess. The fair value of a reporting unit is calculated using valuations or discounted cash flow methods.

Goodwill included in investments in entities subject to significant influence is also not amortized. However, regarding the impairment of these assets, an impairment loss is recognized to record an investment at its estimated realizable value.

l) Operating licenses

The cost of operating licences is capitalized and amortized over 15 years upon commencement of operations.

m) Mining properties

Mining properties include costs pertaining to the exploration and development of mineral sites. However, these accumulated costs do not necessarily represent the current or future value of the projects for which they were incurred, and exclude the administrative costs associated with the exploration and development work, which are recorded 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 abandoned, or it is estimated that the costs incurred, cannot be recovered, all costs relating thereto are recorded in the statement of operation during the year. The costs incurred to maintain these abandoned mining properties are also recorded in the statement of operations as incurred.

n) Start-up costs

Start-up costs include certain financial and other costs incurred during the start-up phase of certain plants. These costs are recorded as incurred in the statement of operations.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 year ended December 31, 2005
 (in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
o) Electricity purchase agreement

The cost of the electricity purchase agreement is based on a risk-sharing formula according to the fluctuation of the price of aluminum and is amortized on a straight-line basis over the term of the agreement (15 years starting in 2002).

p) Foreign currency translation

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the exchange rates in effect at year-end. Non-monetary assets and liabilities are translated at historical exchange rates, except for those of self-sustaining foreign joint ventures which are translated at the rate prevailing at year-end. Revenue and expenses are translated at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of the results for the year.

The "Foreign currency translation adjustments" item in shareholder's equity primarily includes the exchange gains or losses arising from the translation of the investment in self-sustaining foreign joint ventures.

q) Employee future benefits

The cost of pension and other retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on management's best estimate of economic and demographic assumptions.

Past service costs arising from a plan amendment are amortized over the average remaining service period of active employees at the date of the plan amendment. The Company amortizes the portion of actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation or the fair value of plan assets over the average remaining service period of active employees covered by the plans.

r) Derivative financial instruments

The Company uses derivative financial instruments to reduce the risks associated with fluctuations in foreign currencies, interest rates and the prices of raw materials and finished goods. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Unrealized gains and losses on derivative financial instruments, which serve to hedge certain future identifiable risks, are accounted for in the statement of operations together with the underlying items being hedged. Realized and unrealized gains or losses associated with derivative financial instruments which have been terminated or cease to be effective prior to maturity are deferred as assets or liabilities and recognized in the statement of operations in the period in which the underlying original hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized and unrealized gains and losses on such derivative financial instrument are recorded in the statement of operations.

s) Tax status

As the Company is government-owned, neither it nor its wholly-owned subsidiaries are subject to income taxes.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2005

(in thousands of dollars)

3. SUMMARY OF SEGMENTED INFORMATION

The Company has operating activities in six investment groups and one corporate sector. As at December 31, 2005, most investments were in the following sectors: Chemicals, Energy, Environment; Mines, Metals, Materials; Forest Products; Life Sciences; Information and Communication Technologies and Agri-Food. The corporate sector includes the following investments: Domtar and Rona.

		Revenue	Net earnings (loss)	Segment assets	Additions to property, plant and equipment	Acquisi- tions of long- term investments
Chemicals, Energy, Environment	2005	770 838	1 944	807 622	13 883	
	2004	686 780	(8 472)	824 921	29 946	
Mines, Metals, Materials	2005	156 543	2 894	514 847	36 651	1 840
	2004	83 636	9 079	504 706	108 206	3 876
Forest Products	2005	309 335	(666)	407 415	32 447	
	2004	274 925	(23 157)	432 521	31 134	634
Life Sciences	2005		16 523	114 621		240
	2004		(20 367)	102 630		3 210
Information and Communication Technologies	2005		11 736	53 968		3 015
	2004		(34 207)	65 660		6 206
Agri-Food	2005	137 852	26 763	190 759	1 345	2 628
	2004	133 959	(7 033)	189 895	3 082	5 117
Corporate	2005		66 891	201 187		454
	2004		59 686	219 022	897	3 890
Total for segments	2005	1 374 568	126 085	2 290 419	84 326	8 177
	2004	1 179 300	(24 471)	2 339 355	173 265	22 933
Corporate activities	2005		(17 890)	155 346	594	
	2004		(18 518)	30 815	487	
Continuing activities	2005	1 374 568	108 195	2 445 765	84 920	8 177
	2004	1 179 300	(42 989)	2 370 170	173 752	22 933
Discontinued operations (Note 6)	2005		(38 094)	76 606		
	2004		(9 167)	186 698		
Consolidated total	2005	1 374 568	70 101	2 522 371	84 920	8 177
	2004	1 179 300	(52 156)	2 556 868	173 752	22 933

4. NET GAIN ON DISPOSAL OF LONG-TERM INVESTMENTS

During the year, the Company sold shares it held in Atrium Biotechnologies Inc. and Miranda Technologies Inc. in connection with the initial public offering and secondary offering of these two investments. In addition, during the year, the Company sold other investments including half of the shares it held in Rona. These transactions resulted in a gain on disposals and dilutions of \$122 119 000.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

5. FINANCIAL (EXPENSES) INCOME

	2005	2004
Interest on long-term debt	(22 961)	(18 435)
Foreign exchange gain on long-term debt	5 725	25 050
Other foreign exchange loss and financial expenses	(1 477)	(4 696)
	(18 713)	1 919
Interest income on cash and cash equivalents and temporary investments	5 115	3 462
	(13 598)	5 381

6. ASSETS HELD FOR SALE

During the year, the Company adopted a plan to dispose of certain non-strategic investments. These investments are classified as businesses held for sale and are recorded as discontinued operations. Fair values for discontinued operations were determined based on either discounted cash flows or expected selling price.

The disposal of these investments is expected to be completed in 2006, and the first one was completed in February 2006.

As a result of the difficulties experienced in finding a buyer, a business classified as held for sale as at December 31, 2004 was reclassified into continuing operations and asset held and used with restatement as at December 2004. This reclassification did not have a significant effect on earnings from continuing operations for the year ended December 31, 2005.

Certain financial information has been reclassified in the prior period to present these businesses as discontinued operations on the statement of operations, as assets held for sale and liabilities of businesses held for sale on the balance sheet and as cash flows from (used for) discontinued operations on the statement of cash flows.

Asset impairment charges of \$41 839 000, net of gains of \$16 045 000, were recorded in 2005 (2004 - \$40 842 000) as part of loss from discontinued operations to reduce the carrying values of these businesses to their estimated recoverable amounts, net of related selling expenses.

Significant financial information related to the investments included in discontinued operations is as follows:

	2005	2004
Revenue	144 957	164 525
Cost of goods sold and services	133 261	134 779
Selling, general and administrative expenses	7 317	38 204
Amortization	6 232	11 206
Financial expenses	2 194	4 502
Other revenue	(651)	(1 286)
Operating loss	(3 396)	(22 880)
Net asset impairment charges	(41 839)	(40 842)
Gain on disposal	7 141	54 555
Loss from discontinued operations	(38 094)	(9 167)

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

6. ASSETS HELD FOR SALE (cont'd)

The assets and liabilities of businesses held for sale are as follows:

	2005	2004
Current assets of businesses held for sale		
Cash and cash equivalents	1 589	2 835
Temporary investments	4 245	10 931
Accounts receivable	22 943	29 151
Inventories	23 098	30 638
Prepaid expenses	331	228
Long-term assets of business sold	14 699	5 627
	<u>66 905</u>	<u>79 410</u>
Long-term assets of businesses held for sale		
Long-term investments	556	557
Property, plant and equipment	23 607	104 420
Other assets	237	7 938
Less : long-term assets of business sold	<u>(14 699)</u>	<u>(5 627)</u>
	<u>9 701</u>	<u>107 288</u>
Current liabilities of businesses held for sale		
Bank loans	8 427	8 584
Accounts payable and accrued liabilities	16 489	43 318
Current portion of long-term debt	16 337	17 286
Long-term liabilities of business sold	<u>2 369</u>	<u>2 369</u>
	<u>41 253</u>	<u>71 557</u>
Long-term liabilities of businesses held for sale		
Long-term debt (Note 6a))	9 321	34 359
Other long-term liabilities	3 007	2 957
Less : long-term liabilities of business sold	<u>(2 369)</u>	<u>(2 369)</u>
	<u>12 328</u>	<u>34 947</u>

- a) Loans of certain businesses held for sale are secured by various types of securities on accounts receivable, inventories, other tangible and intangible assets and legal hypothecs on all of the properties of which the book value totaled \$76 600 000 as at December 31, 2005.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

7. LONG-TERM INVESTMENTS

	2005		2004	
	Book value	Quoted market value	Book value	Quoted market value
Entities subject to significant influence, using the equity method:				
Warnex Inc.	6 880	10 254	7 408	10 254
Andromed Inc.	170	616	691	1 266
Private companies	116 136		167 042	
	<u>123 186</u>		<u>175 141</u>	
Venture capital, at fair value (Note 7a))	<u>121 393</u>		<u>113 957</u>	
Investments, at cost:				
Domtar Inc. (Note 7b))	178 774	121 922	178 774	263 469
AEterna Zentaris Inc.:				
Shares (Note 7b))	40 000	31 467	40 000	40 000
Term loan, 12%	15 685		14 004	
Atrium Biotechnologies Inc. (Notes 4 and 7c))	17 102	43 117		
Rona Inc. (Note 4)	16 788	77 430	33 531	147 080
Miranda Technologies Inc. (Notes 4 and 7c))	11 428	41 736		
SkyePharma PLC (Note 7b))	4 058	3 082	4 713	5 395
Theratechnologies Inc. (Note 7b))	4 358	2 521	4 358	4 947
Tembec Inc.:				
Preferred shares	2 578		9 104	
Nuance Communications Inc. (formerly Scansoft Inc.)	5 572	6 884	5 572	3 912
Loans and debentures:				
Interest bearing	17 279		17 663	
Non-interest bearing	2 647		6 583	
Other (Note 7d))	9 744		13 962	
	<u>326 013</u>		<u>328 264</u>	
	570 592		617 362	
Less current portion	<u>73 466</u>		<u>39 634</u>	
	<u>497 126</u>		<u>577 728</u>	

- a) As at December 31, 2005, the cost of venture capital investments was \$202 620 000 (December 31, 2004 – \$265 496 000).
- b) The Company recorded its investment at an amount above its quoted market price, because management believes that this impairment in value is not permanent, mainly because of the substantial fluctuations in its respective area of activity.
- c) As at December 31, 2004, the investments in Atrium Biotechnologies Inc. (“Atrium”) and Miranda Technologies Inc. (“Miranda”) were presented as entities subject to significant influence. Pursuant to the completion during the year of the initial public offering of Atrium and Miranda, these investments are now recorded as investments, at cost.
- d) The fair value of the other investments recorded at cost approximates the carrying amount.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	2005			2004
	Cost	Accumulated amortization	Net	Net
Chemicals, Energy, Environment	798 202	280 874	517 328	549 953
Mines, Metals, Materials	384 533	46 278	338 255	323 137
Forest Products	331 603	45 777	285 826	300 496
Agri-Food	25 371	12 173	13 198	13 970
Total for segments	1 539 709	385 102	1 154 607	1 187 556
Corporate activities	18 057	14 529	3 528	4 308
	<u>1 557 766</u>	<u>399 631</u>	<u>1 158 135</u>	<u>1 191 864</u>

Property, plant and equipment includes assets under construction or development amounting to \$165 500 000 as at December 31, 2005 (2004 – \$337 200 000), which are not amortized.

9. OTHER ASSETS

	2005			2004
	Cost	Accumulated amortization	Net	Net
Operating licences	49 995	9 631	40 364	43 187
Mining properties	28 053		28 053	26 283
Electricity purchase agreement	12 192	2 845	9 347	10 160
Grant receivable for exploration work	7 980		7 980	9 300
Accrued benefit asset (Note 19)	4 392		4 392	4 358
Land held for development projects	5 624		5 624	5 624
Other	11 362	3 388	7 974	9 354
	<u>119 598</u>	<u>15 864</u>	<u>103 734</u>	<u>108 266</u>
Less current portion	<u>1 466</u>		<u>1 466</u>	<u>1 319</u>
	<u>118 132</u>	<u>15 864</u>	<u>102 268</u>	<u>106 947</u>

Amortization for the year ended December 31, 2005 was \$5 058 000 (2004 – \$3 994 000).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

10. LONG-TERM DEBT

	2005	2004
Secured (Note 10 a):		
7.27% note, repayable in semi-annual principal instalments, commencing in 2006, maturing in 2017	120 952	125 008
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	61 154	53 802
Revolving bank loan at LIBOR and at the bankers' acceptance rate plus 2.25% and at the prime rate plus 1.25%, maturing in 2007	49 096	42 715
Construction loan convertible into a term loan at the Canadian average 4-year rate on swaps plus 4.75%, repayable commencing in 2006 in variable quarterly payments and maturing in 2012	21 000	15 000
Subordinated debenture of a face value of \$12 500 000, interest free, maturing in 2011	5 751	6 831
Bank loan at US base rate plus 0.5%, repayable in one instalment, maturing in 2006	5 129	7 372
Bank loan at prime rate plus 1.25%, repayable in two instalments, maturing in 2006	4 725	6 000
Bank loan at an effective rate of 6.75%, repayable in variable instalments, maturing in 2013	4 320	5 770
Amount due to Investissement Québec		
At prime rate plus 1.5%, maturing in 2012	78 890	72 578
At prime rate plus 1.5%, repayable in various monthly instalments, maturing in 2015	10 633	
Loans reimbursed in 2005		17 129
Other	6 318	8 075
	<u>367 968</u>	<u>360 280</u>
Unsecured:		
Amount due to Investissement Québec:		
Interest-free, repayable at the latest in 2033	34 658	34 658
Interest-free, repayable subject to certain conditions	14 750	14 750
5% loan due to a partner, maturing in 2006	5 871	5 549
Debenture with a face value of \$5 000 000, at a rate of 5% maturing in 2011	5 398	4 900
Other	16 642	17 272
	<u>77 319</u>	<u>77 129</u>
Total secured and unsecured long-term debt	445 287	437 409
Less current portion	27 628	156 427
	<u>417 659</u>	<u>280 982</u>

- a) Loans of the Company's joint ventures and subsidiaries are secured by various types of securities on accounts receivable, inventories and other tangible and intangible assets and legal hypothecs on all of the property of which the book value totalled \$955 900 000 as at December 31, 2005.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2005

(in thousands of dollars)

10. LONG-TERM DEBT (cont'd)

b) The long-term debt denominated in U.S. dollars amounts to US\$150 410 000 as at December 31, 2005 (2004 – US\$147 645 000).

c) Principal repayments due within each of the next five years are as follows:

2006	27 628
2007	135 168
2008	40 436
2009	34 069
2010	36 797

d) The carrying amount of the long-term debt bearing interest approximates its fair value.

The fair value of long-term interest-free loans of a book value of \$53 400 000 could not be estimated because there were no comparable items.

11. OTHER LONG-TERM LIABILITIES

	2005	2004
Accrued benefit obligation (Note 19)	21 876	19 704
Asset retirement obligations	7 056	4 281
Other	3 155	3 827
	32 087	27 812
Less current portion	1 791	996
	<u>30 296</u>	<u>26 816</u>

12. SHARE CAPITAL

Authorized – par value of \$10 per share
292 500 000 common shares

	2005	2004
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 \$751 660 000.

13. SUPPLEMENTARY CASH FLOW INFORMATION

a) The changes in non-cash operating working capital balances are as follows:

	2005	2004
(Increase) decrease in:		
Accounts receivable	(65 602)	(45 326)
Inventories	(18 332)	(27 001)
Prepaid expenses	2 019	(4 726)
Decrease in:		
Accounts payable and accrued liabilities	<u>(3 333)</u>	<u>(3 265)</u>
	<u>(85 248)</u>	<u>(80 318)</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

13. SUPPLEMENTARY CASH FLOW INFORMATION (cont'd)

- b) Further to the additions of property, plant and equipment, and other investing activities disclosed in the consolidated statement of cash flows, the Company acquired, during the year, property, plant and equipment and other assets amounting to \$12 637 000 of which \$9 108 000 is financed by accounts payable and \$3 529 000 by other long-term debt (2004 - \$27 313 000 was financed by accounts payable and long-term debt).

14. ACQUISITIONS OF BUSINESSES AND LONG-TERM INVESTMENTS

Acquisitions of long-term investments are detailed as follows:

	2005	2004
Venture capital investments:		
Fonds Entrepia Nord, Limited Partnership	1 765	2 206
Media5 Corporation	1 250	1 000
Foragen Technologies, Limited Partnership	1 000	1 500
Sodémex, Limited Partnership	911	2 560
GTI V, Limited Partnership		3 000
Medicago Inc.		2 500
Other	704	791
Entities subject to significant influence:	2 093	5 361
Investments, at cost:	454	4 015
	<u>8 177</u>	<u>22 933</u>

15. DISPOSAL OF BUSINESSES AND LONG-TERM INVESTMENTS

- a) The proceeds on disposal of businesses and long-term investments are as follows:

	2005	2004
Investments, at cost	88 790	188 101
Entities subject to significant influence	61 495	22 341
Businesses (Note 15b))	23 857	120 507
Venture capital investments	15 413	11 120
	<u>189 555</u>	<u>342 069</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousands of dollars)

15. DISPOSAL OF BUSINESSES AND LONG-TERM INVESTMENTS

- b) In 2005, the Company disposed of its investments in some businesses. The net assets disposed of, excluding cash and cash equivalents, are as follows:

	2005	2004
Current assets	11 995	22 375
Long-term investments	339	3 736
Property, plant and equipment	26 066	94 242
Goodwill		810
Other assets	5 208	408
	<u>43 608</u>	<u>121 571</u>
Current liabilities	21 291	15 715
Long-term debt	20 970	42 872
Other long-term liabilities		182
	<u>42 261</u>	<u>58 769</u>
Net assets disposed of	1 347	62 802
Net gain on disposal	15 395	52 153
Proceeds on disposal, net of disposed cash and cash equivalents	16 742	114 955
Net cash receipts related to balances of sale and purchase price of adjustments	8 544	3 199
Transaction fees (paid) payable	(1 429)	2 353
Consideration received	<u>23 857</u>	<u>120 507</u>

16. 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, 2005, the amounts committed to these financial instruments in U.S. dollars amounted to US\$40 077 000. These instruments, maturing from March 2006 to December 2006, had unrealized gains totalling \$1 172 000 as at December 31, 2005.

b) Commodities contracts

To reduce the impact of fluctuations in the price of aluminum, The Company uses futures contracts. As at December 31, 2005, the Company was committed to 9 125 tons of aluminum. These contracts expire between January 2006 and January 2007, and, at December 31, 2005, unrealized losses on these contracts totalled \$1 799 000.

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 CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2005

(in thousands of dollars)

16. 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 has engaged in interest rate swaps. As at December 31, 2005, the Company had engaged in swaps with a notional amount of US\$15 000 000 (2004 – nil). These agreements have a fair market value of \$67 700 as at December 31, 2005 (2004 – nil). The Company pays a fixed interest rate between 4.38% and 4.87% on these swaps and receives a floating rate based on the Libor. The swaps expire in September 2007.

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, 2005, the Company estimated that the risk of such non-performance was remote.

The Company invests its temporary investments and its short-term liquid investments according to established policies in securities of major financial institutions with a good credit rating. The Company is subject to economic conditions affecting the industries in which it operates. The Company continually monitors its clients' credit and establishes a provision for doubtful accounts based on the credit risk determined for each client. Management believes that there was no significant credit risk as at December 31, 2005.

17. 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:

	2005	2004
Consolidated statement of operations:		
Revenue	1 088 196	970 679
Expenses	1 075 265	973 926
Net loss	12 931	(3 247)
Consolidated balance sheet:		
Current assets	354 890	326 128
Long-term assets	859 491	928 120
Current liabilities	135 326	313 609
Long-term liabilities	266 855	120 297
Consolidated statement of cash flows:		
Operating activities	17 847	5 163
Investing activities	(48 148)	(74 498)
Financing activities	8 021	34 724

18. COMMITMENTS AND GUARANTEES
a) Long-term leases and commitments

The Company is committed under long-term leases to make minimum payments totalling \$88 593 000 as follows:

2006	13 536
2007	11 752
2008	10 588
2009	8 752
2010	7 232
2011 and thereafter	36 733

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 year ended December 31, 2005
 (in thousand of dollars)

18. COMMITMENTS AND GUARANTEES (cont'd)**a) Long-term leases and commitments (cont'd)**

The Company is committed to acquire plant, property and equipment and to purchase services and raw materials aggregating \$31 400 000 over the next few years. The Company is also committed to subscriptions for long-term investments, which amounted to \$12 800 000 as at December 31, 2005, in addition to those recorded as current and long-term liabilities on the Company's balance sheet.

b) Credit facilities

At December 31, 2005, the Company has available committed lines of credit totalling \$467 400 000, 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 which include elements meeting the definition of a "Guarantee" under AcG14. The main guarantees provided are as follows:

i) Supply contract

The Company offered a guarantee of a maximum amount of \$25 000 000 with 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 for these indemnification agreements.

iii) Sales of businesses

When a business is sold in whole or in part, in addition to any potential indemnification arising from the failure to execute restrictive clauses or from non-compliance with a declaration of guarantee, the Company may agree to give a guarantee against any claim resulting from past activities. In general, the terms and conditions and amount of such indemnification are limited by agreement. As a result of the nature of these indemnification agreements, the Company cannot estimate the maximum potential amount of future payments it could be required to make to the indemnified parties. The Company did not recognize an amount on the consolidated balance sheet for the potential indemnifications.

19. EMPLOYEE FUTURE BENEFITS

The Company offers various contributory and non-contributory defined benefit pension plans to its employees which are based on years of service and average final earnings of these employees. In addition, the Company offers employees other future benefits consisting mainly of group insurance plans which are not funded.

The Company evaluates its accrued benefit obligations and the fair value of plan assets as at December 31 of each year for accounting purposes. The most recent actuarial valuations for the pension and other plans were conducted in 2003 and the next ones are scheduled for 2006.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousand of dollars)

19. EMPLOYEE FUTURE BENEFITS (cont'd)

- a) The following table presents information relating to the various plans of the Company, as at December 31, 2005, as established by independent actuaries:

	2005			2004
	Pension Plans	Other Plans	Total	Total
Accrued benefits obligations	125 142	18 327	143 469	119 609
Plan assets at fair value	88 324		88 324	80 527
Deficit, end of year	<u>(36 818)</u>	<u>(18 327)</u>	<u>(55 145)</u>	<u>(39 082)</u>
Accrued benefit asset	4 392		4 392	4 358
Accrued benefit liability	<u>(9 568)</u>	<u>(12 308)</u>	<u>(21 876)</u>	<u>(19 704)</u>
Net recorded amount	<u>(5 176)</u>	<u>(12 308)</u>	<u>(17 484)</u>	<u>(15 346)</u>
Expense for the year	5 514	1 926	7 440	6 636
Employer contributions	4 892		4 892	4 604
Employee contributions	1 831		1 831	1 609
Benefits paid	3 878	269	4 147	2809

- b) The weighted average actuarial assumptions used by the Company as at December 31, are as follows:

	2005		2004	
	Pension plans %	Other plans %	Pension plans %	Other plans %
Accrued benefit obligations as at December 31:				
Discount rate	5.20	5.70	6.10	6.00
Rate of compensation increase	3.60	3.40	3.70	3.45
Benefit costs for years ended December 31:				
Discount rate	6.00	5.50	6.20	6.10
Long-term rate of return on assets	7.25		7.25	
Rate of compensation increase	3.65	3.40	3.75	3.90

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2005
(in thousand of dollars)

19. EMPLOYEE FUTURE BENEFITS (cont'd)

c) The assets of the pension plans are invested as follows:

	2005 %	2004 %
Shares	54.90	53.20
Bonds	37.00	39.30
Other	8.10	7.50
	<u>100.00</u>	<u>100.00</u>

For measurement purposes, an annual weighted average rate of increase in the cost of covered health care benefits of 9.15% was assumed for 2006 (2005 – 10%). The rate was assumed to decrease gradually to reach approximately 5% in 2012 and remain at that level thereafter.

20. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform to the financial statement presentation adopted in the current year.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**MANAGEMENT'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 2005 have been audited by an independent firm of auditors, KPMG LLP, before their presentation to the Board of Directors, which has approved them upon recommendation of the duly constituted and appointed Audit Committee.

Management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to the consolidated financial statements included herein.

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
March 24, 2006

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 as at December 31, 2005 and the consolidated statements of operations, 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Act respecting the Auditor General (R.S.Q., Chapter V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year, with the exception of the changes in accounting policies described in Note 1.

KPMG LLP.
Chartered Accountants

Montréal, Québec
March 24, 2006

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
(R.S.Q., c. S-17.1)

RESULTS

for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
REVENUES		
Space rentals		
Government departments and client agencies	489 910	497 049
Other clients	18 179	19 034
Parking lots	27 994	27 303
Leasehold improvements and other services offered clients	87 566	116 135
Gain on transfer of immovable	2 225	1 937
Other	579	1 840
	<u>626 453</u>	<u>663 298</u>
EXPENSES		
Rent and business taxes on leased property	201 411	202 424
Operating expenses for immovable (Note 16)	137 320	145 062
Leasehold improvements and other services offered clients	85 013	112 679
Financial expenses – net (Note 17)	74 790	68 639
Real estate and business taxes on immovable	69 412	62 698
Depreciation (Note 18)	33 333	32 943
General and administrative expenses – net (Note 19)	9 623	9 483
Settlement of construction-related lawsuits		5 153
Restructuring costs	3 019	3 377
Depreciation of buildings intended for sale	3 118	
	<u>617 039</u>	<u>642 458</u>
NET INCOME	<u>9 414</u>	<u>20 840</u>

RETAINED EARNINGS

for the year ended March 31, 2006
(in thousands of dollars)

	2006	2005
BALANCE AT THE BEGINNING, ALREADY ESTABLISHED	94 202	73 362
Adjustment at April 1, 2005 (Note 3)		
Estimate of interest-rate exchange agreements at fair value	(17 493)	
Estimate of the long-term debt at cost after amortization using the actual interest-rate method	2 325	
ADJUSTED BALANCE AT THE BEGINNING	79 034	73 362
NET REVENUES	<u>9 414</u>	<u>20 840</u>
BALANCE AT THE END	<u><u>88 448</u></u>	<u><u>94 202</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
BALANCE SHEET
 as at March 31, 2006
 (in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Immovable (Notes 3, 4 and 5)	1 453 785	1 415 302
Receivables linked to development (Note 6)	147 771	156 699
Work in progress (Note 5)	21 491	30 767
Long-term investment (Note 7)	14 127	14 058
Equipment (Note 8)	8 364	8 064
Accounts receivable (Note 9)	45 045	66 180
Other assets – net (Notes 3 and 10)	<u>23 422</u>	<u>26 572</u>
	<u>1 714 005</u>	<u>1 717 642</u>
LIABILITIES		
Long-term debt (Notes 3 and 11)	1 003 205	1 012 210
Short-term borrowings (Note 12)	375 413	381 716
Accounts payable and accruals (Note 13)	132 549	132 649
Outstanding cheques less cash on hand	7 158	9 198
Interest-rate exchange agreements (Notes 3 and 14)	<u>19 565</u>	<u></u>
	<u>1 537 890</u>	<u>1 535 773</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 15)	80 001	80 001
Gouvernement du Québec contribution	7 666	7 666
Retained earnings	<u>88 448</u>	<u>94 202</u>
	<u>176 115</u>	<u>181 869</u>
	<u>1 714 005</u>	<u>1 717 642</u>

COMMITMENTS (Note 23)**CONTINGENCIES** (Note 24)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Marc-A. Fortier, Adm. A., President of the Board of Directors and
 President and Chief Executive Officer
 Sebastiano Faustini, CA, Administrator

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

CASH FLOW
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Accounts receivable– clients	610 943	583 099
Accounts payable– suppliers and staff members	(497 470)	(512 983)
Interest earned	10 020	11 431
Interest paid	<u>(85 075)</u>	<u>(81 195)</u>
Cash flows related to operating activities	<u>38 418</u>	<u>352</u>
INVESTMENT ACTIVITIES		
Acquisitions of immovable	(68 797)	(66 217)
Receivables linked to development	43 260	39 225
Long-term investments	(69)	(73)
Acquisitions of equipment	(1 981)	(2 972)
Acquisitions of other net assets	(1 032)	(9 487)
Proceeds from disposal of immovables	<u>3 053</u>	<u>4 016</u>
Cash flows related to investment activities	<u>(25 566)</u>	<u>(35 508)</u>
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	150 000	125 000
Proceeds from short-term net borrowings	(6 303)	(96 711)
Reimbursement of debt under capital lease contracts	(498)	(443)
Reimbursement of long-term debt	<u>(154 011)</u>	<u>192</u>
Cash flows related to financing activities	<u>(10 812)</u>	<u>28 038</u>
INCREASE IN (DECREASE) CASH AND CASH EQUIVALENTS *	2 040	(7 118)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(9 198)</u>	<u>(2 080)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>(7 158)</u></u>	<u><u>(9 198)</u></u>

* Cash and cash equivalents include outstanding cheques less cash on hand.

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2006

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The SIQ is a joint stock company established the September 25, 1984, by the Act respecting the Société immobilière du Québec (R.S.Q., c. S-17.1). Its purpose is to make buildings and property available to government departments and agencies, for a consideration, and provide them with construction, operating and management services.

The SIQ houses the majority of government departments and agencies, with the exception notably of the health and education and, in this way, it is present throughout Québec.

Under section 984 of the Québec Taxation Act and section 149 of the Canada Income Tax Act, the SIQ is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The 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. The cost includes all of the amounts related to the acquisition, construction, capital-lease contracts and the improvement of fixed assets.

Fixed asset amortization is calculated at the rate of 5% using the annuity method of depreciation so as to fully amortize building costs over periods ranging from 15 to 50 years.

- Under construction

Immovables in operation are recorded at cost. In addition to direct costs, the cost of immovables under construction includes operating expenses, property taxes, interest and the applicable portion of general and administrative expenses related thereto, less rental income. Immovables under construction are not deemed to be in operation until the project is fully completed and the premises have reached a satisfactory level of occupancy within a reasonable time limit.

When a project has been fully completed and the premises have reached a satisfying level of occupancy, after a reasonable time period, the cost of buildings under construction is transferred to buildings in operation or to major repairs.

- Major repairs

Major repairs to buildings being operated are reported at cost and amortized using 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 intended for sale are valued at the lower of amortized cost and net realizable value. No depreciation on these immovables is recorded once the SIQ decides to sell them.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(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 the book value of an asset might not be recoverable. Depreciation is assessed by comparing the book value of an asset with the net non-capitalized cash flows envisaged for use and with its residual value. If the 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. This work is recorded at cost with the amounts invoiced having been deducted from this cost.

Equipment

Equipment used for administrative purposes is recorded at cost and amortized using the straight-line method over periods ranging from 3 to 10 years.

Other assets - net

- *Deferred expenses*

The other deferred expenses and income are amortized according to the straight-line method over a period of 3 to 25 years.

- *Computer system development*

The cost of developing computer systems is amortized according to the straight-line method over a period of 5 years.

Recording proceeds

- *Space rental*

The proceeds from space rental are invoiced according to foreseeable costs. These costs are divided among the government's departments and agencies that are the 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*

The proceeds are recorded when the goods are delivered or the services rendered.

The interest earnings from receivables linked to development are recorded according to the duration of related receivables using the effective interest method.

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 with exchange of the notion on which the payments are based.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(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 variation 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 recorded 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 interenterprise government defined-benefit plans given that the SIQ lacks sufficient information to apply defined-benefit plan accounting.

3. CHANGES IN ACCOUNTING POLICIES**Major repairs**

As of this fiscal year, the SIQ capitalizes major repairs and amortizes them using the straight-line method over their service life whereas formerly they were posted to results as conservation costs.

The financial statements for the fiscal year ended March 31, 2005 were not adjusted to reflect this change since the financial data required to do so could not be established through a reasonable effort.

Applied prospectively, this change increases (decreases) the following items of the financial statements for the fiscal year ended March 31, 2006:

	<u>2006</u>
Immovables – major repairs	10 808
Immovables under construction	3 592
Immovable operating costs	
Amortization of major repairs	1 189
Conservation	(14 400)

Financial instruments

As of this fiscal year, the SIQ applies the recommendations of section 3855 of the Canadian Institute of Chartered Accountants handbook “Financial Instruments – Recognition and Measurement”.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2006

(in thousands of dollars)

3. MODIFICATIONS DE CONVENTIONS COMPTABLES (cont'd)**Financial instruments (cont'd)***- Derivative financial instruments*

Derivative financial instruments are reported at fair value whereas formerly they were considered interest adjustments. Consequently, the annual variation in the fair value of derivative financial instruments is posted to results, as an adjustment to financial costs.

- Other financial instruments

The other financial assets and liabilities are henceforth evaluated using the method described in Note 2 whereas formerly they were reported at cost.

The effect of this change on the financial statements for fiscal 2005 and previous, in the amount of \$15 168 million was posted on April 1, 2005 directly to the statement of retained earnings for the fiscal year ended March 31, 2006. The financial statements for the fiscal year ended March 31, 2005 were not adjusted to reflect this change.

Applied retroactively, this change increases (decreases) the following items of the financial statements for the fiscal year ended March 31, 2006:

	<u>2006</u>
BALANCE SHEET	
Current assets	
Other assets – net	(2 345)
Current liabilities	
Long-term debt	(4 496)
Interest-rate exchange agreements	19 565
Retained earnings	(17 414)
 INCOME	
Expenditure	
Financial expenses – net	2 246
Net income	(2 246)

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

4. IMMOVABLES

	2006				2005
	Land	Buildings	Immovables under capital leases	Total	Total
In operation	117 809	1 575 207	56 041	1 749 057	1 689 911
Under construction	5 995	25 068		31 063	32 038
Major repairs		10 808		10 808	
Intended for sale	25	256		281	278
	123 829	1 611 339	56 041	1 791 209	1 722 227
Accumulated depreciation		327 152	10 272	337 424	306 925
	123 829	1 284 187	45 769	1 453 785	1 415 302

Acquisitions total \$70 341 million, of which \$13 869 million was unpaid at March 31, 2006 (2005: \$12.3 million).

5. EXPENSES CAPITALIZED TO IMMOVABLES AND WORK IN PROGRESS

	2006	2005
During the year, the following costs were capitalized:		
Wages and general and administrative expenses (Note 19)	8 029	6 489
Interest (Note 17)	1 146	1 796
Operating expenses, property taxes less rental income	313	242
	9 488	8 527

6. ACCOUNTS RECEIVABLE LINKED TO DEVELOPMENTS

Accounts receivable from government departments and agencies, repayable in monthly instalments including capital and interest at rates varying from 4.69% to 10.64%, due between 2007 and 2021.

The estimated amount of cash receipts break down as follows:

Fiscal year

2007	25 439
2008	21 866
2009	19 467
2010	16 834
2011	26 918
2012 to 2021	37 247
	<u>147 771</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

7. LONG-TERM INVESTMENTS

	2006	2005
General partnership		
Cost	2 300	2 300
Share in results since its creation	2 622	2 239
Term loan, guaranteed by a first real estate mortgage, pari passu, at the rate of 6.51% cashable in monthly payments of \$76 390 in principal and interest, renewable in 2007, maturing in 2022	9 205	9 519
	<u>14 127</u>	<u>14 058</u>

The estimated amount of capital encashments on the loan breaks down as follows:

Exercise

2007	335
2008	357
2009	381
2010	407
2011	433
2012 to 2022	<u>7 292</u>
	<u>9 205</u>

8. EQUIPMENT

	2006	2005
Equipment	27 261	25 584
Accumulated depreciation	<u>18 897</u>	<u>17 520</u>
	<u>8 364</u>	<u>8 064</u>

9. ACCOUNTS RECEIVABLE

	2006	2005
Related parties – jointly-controlled entities	40 412	62 107
Related parties – via management contract	2 794	2 611
Other	<u>1 839</u>	<u>1 462</u>
	<u>45 045</u>	<u>66 180</u>

10. OTHER ASSETS - NET

	2006	2005
Deferred expenses at amortized cost	19 826	21 522
Computer systems development, at amortized cost	727	1 042
Prepaid expenses	2 869	2 516
Discount and issue expenses on long-term debt at amortized cost		<u>1 492</u>
	<u>23 422</u>	<u>26 572</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

11. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
Bonds at fixed effective rates of 9.36% to 10.78%, guaranteed by the Gouvernement du Québec, maturing between 2007 and 2015 ^a	217 746	219 673
Notes owed to the Financing Fund of the Gouvernement du Québec		
Fixed effective rates of 4.64% to 6.56%, maturing between 2010 and 2033	705 889	712 458
Effective rate of bank acceptances plus 0.26% , maturing in 2007	28 920	28 920
Commitments under capital leases ^b	50 214	50 712
Borrowings at varying rates and terms	<u>436</u>	<u>447</u>
	<u>1 003 205</u>	<u>1 012 210</u>

Payments of principal, excluding capital lease contracts, are as follows:

Fiscal year

2007	39 176
2008	13
2009	15
2010	28 394
2011	<u>19</u>
	67 617
2012 to 2016	731 327
2017 to 2021	144
2022 to 2026	2
2027 to 2031	54 588
2032 to 2033	<u>99 313</u>
	<u>952 991</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 six fiscal years is \$9 million annually.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2006

(in thousands of dollars)

11. LONG-TERM DEBT (cont'd)

b The minimum payments for capital leases for the coming fiscal years are as follows:

Exercise

2007	9 669
2008	9 669
2009	9 669
2010	9 669
2011	9 669
Thereafter	173 887
Total minimum payments payable	222 232
Less : Theoretical interest at a rate of 10.56%	89 100
Incidental expenses	82 918
	172 018
	50 214

12. SHORT-TERM BORROWINGS

The SIQ's short-term borrowings bear interest at an average rate of 3.88% and mature from April 3 to 28, 2006.

At March 31, 2006, the SIQ contracted short-term borrowings of \$375.4 million (2005: \$381.7 million), of which \$298.7 million comes from the Gouvernement du Québec's Financing Fund (2005: \$305.6 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, 2005 and 2006, this credit line was unused.

13. ACCOUNTS PAYABLE AND ACCRUALS

	2006	2005
Related parties – controlled entities	53 681	30 918
Other	78 868	101 731
	132 549	132 649

14. 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.

Notional amount	Fixed interest rate	Maturity	Fair value (Note 2)
20 000	5.629%	15-06-2008	700
40 300	6.720%	08-05-2030	11 438
35 000	6.298%	29-09-2030	7 427
95 300			19 565

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

15. CAPITAL STOCK

SIQ shares are held by the Minister of Finance.

	<u>2006</u>	<u>2005</u>
Authorized:		
100 000 shares with a par value of \$1 000 each		
Issued and paid up:		
80 001 shares	<u>80 001</u>	<u>80 001</u>

16. OPERATING EXPENSES FOR IMMOVABLES

	<u>2006</u>	<u>2005</u>
Operating	95 899	92 260
Wages, other direct costs and general expenses posted to operations of immovables (Note 19)	29 728	32 312
Preservation	8 289	20 059
Amortization of major repairs	1 189	
Relocation expenses	<u>2 215</u>	<u>431</u>
	<u>137 320</u>	<u>145 062</u>

17. FINANCIAL EXPENSES - NET

	<u>2006</u>	<u>2005</u>
Interest expenses:		
Long-term debt		
Related parties – controlled entity	41 398	41 062
Other	23 981	23 837
Increase in fair value of interest-rate exchange agreements	2 072	
Commitments under capital leases	5 331	5 388
Amortization of the premium, discount and issue expenses on long-term debt		201
Short-term borrowings		
Related parties – controlled entity	11 930	10 790
Other	<u>2 177</u>	<u>1 881</u>
	86 889	83 159
Interest income:		
Receivables linked to development	9 166	9 887
Other	<u>679</u>	<u>1 648</u>
	9 845	11 535
Amounts carried forward	<u>77 044</u>	<u>71 624</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

17. FINANCIAL EXPENSES – NET (cont'd)

	2006	2005
Amounts brought forward	77 044	71 624
Less:		
Interest capitalized to immovables and to work in progress (Note 5)	1 146	1 796
Interest posted to results under general and administrative expenses	1 108	1 189
	2 254	2 985
	<u>74 790</u>	<u>68 639</u>

18. DEPRECIATION

	2006	2005
Immovables	31 055	29 063
Equipment and other assets - net	4 348	4 861
	35 403	33 924
Less:		
Amortization charged to results under general and administrative expenses and operating expenses for immovables	2 070	981
	<u>33 333</u>	<u>32 943</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES - NET

	2006	2005
Salaries and fringe benefits	38 946	39 786
Administrative offices expenses	3 637	4 486
Other administrative expenses	4 797	4 012
	47 380	48 284
Less:		
Expenses capitalized to immovables and work in progress (Note 5)	8 029	6 489
Expenditures charged to operating costs of immovables (Note 16)	29 728	32 312
	37 757	38 801
	<u>9 623</u>	<u>9 483</u>

20. 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 \$3 million.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

20. 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, 2006 was \$1 125.8 million and the book value \$1 003.2 million (\$1 124 million vs. \$1 012.2 million at March 31, 2005).

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 near future.

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, 2006 was \$153.8 million and the book value \$147.8 million (\$166.0 million vs. \$156.7 million at March 31, 2005).

Short-term loan

The fair value of this instrument is determined by the actualization of future cash flows at the market interest rate applicable to similar borrowings. The fair value of the short-term loan at March 31, 2006 was \$9.2 million and the book value \$9.2 million (\$9.7 million vs. \$9.5 million at March 31, 2005).

21. FUTURE FRINGE BENEFITS
Pension plans

The staff members of the SIQ participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan of Management Personnel (PPMP) or Pension Plan of Senior Civil Servants (PPSCS) administered by a Québec government agency. These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The SIQ's contributions charged to the year-end statement amount to \$1.7 million (2005: \$1.4 million). The SIQ's liability towards these government plans is restricted to its contributions as an employer.

Provision for sick leave and vacation time

	2006			2005
	Sick leave	Vacation time	Total	Total
Opening balance	5 431	3 539	8 970	9 755
Charges for the year	981	3 159	4 140	4 070
	6 412	6 698	13 110	13 825
Benefits paid during the year	1 239	3 248	4 487	4 855
Closing balance	5 173	3 450	8 623	8 970

The balance of this provision is included under the item "Accounts receivable and accrued expenses".

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006
(in thousands of dollars)

22. 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 either 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.

23. COMMITMENTS**Operating leases**

The minimum payments required under operating leases are as follows:

Exercise

2007	192 860
2008	169 295
2009	144 160
2010	119 813
2011	97 347
Thereafter	<u>480 745</u>
	<u>1 204 220</u>

Construction and major leasehold improvement projects

As at March 31, 2006, external work and fees related to construction and major leasehold improvement projects were part of contractual agreements totalling \$33 million (2005: \$14 million).

24. 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, regulations and adopted by government authorities. The SIQ deems that the environmental risks are properly managed and no actual or probable liability can be envisaged.

25. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified for consistency with the presentation adopted in 2006.

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 drawn up in accordance with the accounting principles that are generally recognized in Canada and include amounts based on best judgements and estimates. All other financial information contained in the annual report is consistent with that presented in the financial statements.

Management adopted a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly.

The Board of Directors fulfilled its responsibility with regard to the financial statements, mainly through its audit committee. This committee met periodically with management and the internal auditor to ensure that the internal accounting controls were adequate and that the financial data pertaining to the SIQ was reported in its entirety. The committee examined the financial statements and recommended that the Board of Directors adopt them.

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

Marc-A. Fortier, Adm. A.
President of Board of Directors, President and Chief Executive Officer

Jacques Vaillancourt, CA
Vice-President, Administration and Finance

Québec, May 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société immobilière du Québec as at March 31, 2006 and the results, retained earnings and cash flow statements for the year then ended. These financial statements are the responsibility of SIQ management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the SIQ'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, 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 19, 2006

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL
(R.S.Q., c. S-17.2.0.1)

RESULTS AND DEFICIT
for the year ended March 31

	<u>2006</u>	<u>2005</u> (Note 14)
REVENUES		
Investment income		\$842 365
Interest	\$1 147 293	903 230
Other (Note 8)	<u>758 691</u>	<u>127 883</u>
	<u>1 905 984</u>	<u>1 873 478</u>
EXPENSES		
Investment expenses		
Investment management fees	42 372	
Loss on disposal of investments	20 000	65 637 312
Permanent loss in value of investments		8 495 378
Bad debts	96 731	424 201
Exchange loss	75 806	56 146
Interest charges	<u>396 785</u>	
	<u>631 694</u>	<u>74 613 037</u>
Operating expenses		
Salaries and benefits	3 113	3 061 611
Professional and contractual services	56 922	2 058 212
Administrative service fees - Jointly-controlled related entity	133 750	
Rent and taxes	95 874	382 503
Travel and business development	7 622	140 519
Office expenses	(13 402)	153 542
Advertising, promotion and annual report		62 211
Communications	15 635	69 677
Loss on disposal of capital assets	15 114	
Amortization of capital assets		165 189
Other		<u>574 363</u>
	<u>314 628</u>	<u>6 667 827</u>
NET INCOME (NET LOSS)	959 662	(79 407 386)
DEFICIT AT BEGINNING OF YEAR	<u>(228 390 980)</u>	<u>(148 983 594)</u>
DEFICIT AT END OF YEAR	<u><u>\$(227 431 318)</u></u>	<u><u>\$(228 390 980)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**BALANCE SHEET**
as at March 31

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$21 078	\$2 682 641
Short-term investments (Note 3)	5 409 895	32 097 782
Accounts receivable (Note 4)	98 282	1 082 871
Prepaid expenses	165 377	89 539
Investments (Note 5)	7 456 182	8 000 000
Capital assets	<u>60 757</u>	<u>60 757</u>
	<u>\$13 150 814</u>	<u>\$44 013 590</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable (Note 6)	\$177 950	\$2 456 570
Borrowing (Note 5)	<u>7 456 182</u>	<u>8 000 000</u>
	<u>7 634 132</u>	<u>10 456 570</u>
Shareholder's equity		
Share capital (Note 7)	232 948 000	261 948 000
Deficit	<u>(227 431 318)</u>	<u>(228 390 980)</u>
	<u>5 516 682</u>	<u>33 557 020</u>
	<u>\$13 150 814</u>	<u>\$44 013 590</u>

INVESTMENT COMMITMENTS (Note 10)
CONTINGENCY (Note 11)

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 MONTRÉAL**CASH FLOW**
for the year ended March 31

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net income (net loss)	\$959 662	\$(79 407 386)
Elements not affecting cash on hand		
Amortization of capital assets		165 189
Interest and dividends capitalized to investments		(54 575)
Permanent loss in value of investments		8 495 378
Losses on disposal of capital assets	15 114	(2 190)
Losses on disposal of investments		65 158 337
	<u>974 776</u>	<u>(5 645 247)</u>
Change in non-cash items related to operations		
Accounts receivable	984 589	2 008 052
Prepaid expenses	(75 838)	(30 083)
Loans receivable		113 362
Accounts payable	<u>(2 278 620)</u>	<u>1 394 189</u>
	<u>(1 369 869)</u>	<u>3 485 520</u>
	<u>(395 093)</u>	<u>(2 159 727)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets		(20 114)
Revenues from disposal of capital assets	45 643	3 588
Acquisition of investments	(2 562 909)	(10 207 277)
Reimbursement of investments		9 338 640
Revenues on disposal of investments	<u>3 106 728</u>	<u>72 547 238</u>
	<u>589 462</u>	<u>71 662 075</u>
FINANCING ACTIVITIES		
Borrowing	2 562 909	8 000 000
Repayment of borrowing	(3 106 728)	
Capital stock buyback for cash	<u>(29 000 000)</u>	<u>(80 000 000)</u>
	<u>(29 543 819)</u>	<u>(72 000 000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(29 349 450)</u>	<u>(2 497 652)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>34 780 423</u>	<u>37 278 075</u>
CASH AND CASH EQUIVALENTS AT END	<u><u>\$5 430 973</u></u>	<u><u>\$34 780 423</u></u>
CASH AND CASH EQUIVALENTS		
Cash	\$21 078	\$2 682 641
Short-term investments	<u>5 409 895</u>	<u>32 097 782</u>
	<u><u>\$5 430 973</u></u>	<u><u>\$34 780 423</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2006

1. GOVERNING STATUTE AND MISSION

Société Innovatech du Grand Montréal is a legal person of public law established under Chapter 33 of the statutes of 1992 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 keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Cash and cash equivalents

The Société presents in its cash and cash equivalents bank balances and short-term investments that are readily convertible into a cash amount whose value is unlikely to change significantly.

Short-term investments

Short-term investments are recorded at cost.

Investments

Investments are made in the form of shares in a limited partnership and are recorded at cost.

3. SHORT-TERM INVESTMENTS

The Société's cash surpluses are invested in a treasury management fund and in liquid, low-risk investment vehicles.

	2006	2005
Cash Management Fund	\$3 485 446	\$32 097 782
Deposit certificate, 4.7%, maturing in April 2006	1 924 449	
	<u>\$5 409 895</u>	<u>\$32 097 782</u>

4. ACCOUNTS RECEIVABLE

	2006	2005
		(Note 14)
Revenues from the disposal of investments receivable		\$427 494
Québec Sales Tax receivable	\$4 042	138 808
Receivables	13 375	
Other	80 865	516 569
	<u>\$98 282</u>	<u>\$1 082 871</u>

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. INVESTMENT**

	<u>2006</u>	<u>2005</u>
Investments in limited partnerships	<u>\$ 7 456 182</u>	<u>\$8 000 000</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 (eight in 2005) equity interests in limited partnerships could not be sold to the buyer.

To manage the fair value risk of investments in limited partnerships, a derivative contract was signed with the buyer. 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.

6. ACCOUNTS PAYABLE

	<u>2006</u>	<u>2005</u>
Accounts payable ¹	\$167 360	\$2 456 570
Payable	<u>10 590</u>	<u></u>
	<u>\$177 950</u>	<u>\$2 456 570</u>

1 Includes \$133 750 owed to a jointly-controlled related entity.

7. SHARE CAPITAL

The principal purpose of the Act respecting Société Innovatech du Grand Montréal is to enable the Société to continue its existence and to be endowed with authorized capital of \$350 000 000.

	<u>2006</u>	<u>2005</u>
Authorized:		
3 500 000 common shares with a par value of \$100 each		
Issued and paid:		
2 329 480 common shares (2 619 480 common shares in 2005)	<u>\$232 948 000</u>	<u>\$261 948 000</u>

The share capital is issued to the Minister of Finance, and is therefore under the responsibility of the Government of Québec.

During the fiscal year, the Société bought back 290 000 ordinary shares for \$29 000 000 in cash (2005: 800 000 ordinary shares for \$80 000 000 in cash).

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2006**8. OTHER REVENUES**

	2006	2005
Rental income	\$24 000	
Final dividends	184 691	
Royalties	550 000	
Directors' fees		\$13 610
Gain on the disposal of assets		2 190
Other		112 083
	<u>\$758 691</u>	<u>\$127 883</u>

9. 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.

10. INVESTMENT COMMITMENTS

As at March 31, 2006, the Société's commitments to limited partnerships were \$9 063 976, which are taken over by the buyer.

11. CONTINGENCY

A lawsuit has been instituted against the Société and the other partners involved in the file 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.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Given that they mature in the short term, the fair value of cash, short-term investments, payables and receivables is equivalent to their book value.

Given the derivative contract between the Société and the buyer, although the fair value of the investment and the borrowing is \$8 292 000, the latter equals the book value since the buyer is affected by the gain or loss in value.

13. CREDIT RISK

The Société is exposed to credit risk related to the receipt of accounts it grants. As a result, the Société reviews its receivables on an ongoing basis and, if applicable, records allowances for doubtful debts. These assets are presented at their book value in the balance sheet.

14. COMPARATIVE FIGURES

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

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, 2006 and the results and deficit and cash flow statements for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 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 have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, January 12, 2007

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
(R.S.Q, c. S-17.2.2)

REVENUES AND DEFICIT
for the year ended March 31, 2006

	2006	2005
REVENUES		
Interest income	\$31 814	\$771 766
Dividend income		104 205
Interest on bank balance and short-term investment	48 554	40 783
Investment and management fees	3 246	71 630
	<u>83 614</u>	<u>988 384</u>
EXPENSES		
Operating expenses:		
Salaries and fringe benefits	620 015	659 444
Professional and contractual services	182 465	143 856
Rent, taxes and insurance	81 202	97 844
Travelling and business development	41 003	49 709
Office expenses	44 821	33 486
Advertising and promotion	(6 202)	10 922
Telephone and messenger services	11 506	12 946
Training	96	4 249
Bank charges	2 036	1 757
Loss on disposal of fixed assets	1 880	3 564
Depreciation of fixed assets	34 728	28 446
	<u>1 013 550</u>	<u>1 046 223</u>
LOSS BEFORE FEES LINKED TO INVESTMENTS	<u>(929 936)</u>	<u>(57 839)</u>
Gains on disposal of investments	(865 159)	(748 597)
Doubtful accounts	166	92 779
Unrealized losses on change in fair value of debentures and loans	2 615 430	2 193 690
Unrealized losses on change in fair value of stock investments	6 481 232	4 025 601
Unrealized losses on change in fair value of investments in a limited partnership	181 555	
	<u>8 413 224</u>	<u>5 563 473</u>
NET LOSS	(9 343 160)	(5 621 312)
DEFICIT, BEGINNING OF YEAR	(36 599 328)	(30 978 016)
DEFICIT, END OF YEAR	<u>\$(45 942 488)</u>	<u>\$(36 599 328)</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**BALANCE SHEET**
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$3 387 925	\$836 018
Short-term investment (Note 3)	391 162	380 972
Accounts receivable (Note 4)	24 365	102 111
Prepaid expenses	10 892	18 298
	<u>3 814 344</u>	<u>1 337 399</u>
Investments and loans (Note 5)	5 827 340	15 642 833
Fixed assets (Note 6)	<u>38 980</u>	<u>57 406</u>
	<u><u>\$9 680 664</u></u>	<u><u>\$17 037 638</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	<u>\$122 352</u>	<u>\$136 166</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)	55 500 800	53 500 800
Deficit	<u>(45 942 488)</u>	<u>(36 599 328)</u>
	<u>9 558 312</u>	<u>16 901 472</u>
	<u><u>\$9 680 664</u></u>	<u><u>\$17 037 638</u></u>
COMMITMENTS (Note 10)		
CONTINGENCIES (Note 11)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Roger Noël, Member of the Board of Directors
 Daniel Poisson, President and Chief Executive Officer

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

CASH FLOW
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net loss	\$(9 343 160)	\$(5 621 312)
Adjustments for:		
Amortization of fixed assets	34 728	28 446
Capitalized interest on investments		(471 408)
Unrealized losses on change in fair value of debentures and loans	2 615 430	2 193 690
Unrealized losses on fair value of stock investments	6 481 232	4 025 601
Unrealized losses on change in fair value of investments in a limited partnership	181 555	
Realized (gain) loss on disposal of investments	(865 159)	(748 597)
Loss on disposal of fixed assets	1 880	3 564
	<u>(893 494)</u>	<u>(590 016)</u>
Changes in non-cash items related to operations:		
Decrease in debtors	77 746	12 259
Decrease in prepaid costs	7 406	1 545
Variation in creditors and accrued costs	<u>(13 814)</u>	<u>17 280</u>
Cash flows used for operations	<u>(822 156)</u>	<u>(558 932)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(19 058)	(50 755)
Acquisition of investments	(1 403 844)	(3 067 358)
Recovery of loans and debentures	50 000	145 000
Proceeds from disposal of investments	2 756 279	461 898
Proceeds from disposal of fixed assets	<u>876</u>	<u>3 380</u>
Cash flows used for operations	<u>1 384 253</u>	<u>(2 507 835)</u>
FINANCING ACTIVITIES		
Cash flows from:		
Capital stock issue (Note 7)	<u>2 000 000</u>	<u>1 500 000</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2 562 097	(1 566 767)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1 216 990</u>	<u>2 783 757</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	<u><u>\$3 779 087</u></u>	<u><u>\$1 216 990</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS**
March 31, 2006

1. CONSTITUTION AND PURPOSE

The Société Innovatech du sud du Québec is a legal person established in the public interest under Chapter 19 of the 1995 statutes and continued as a corporation through its governing statute, i.e. the Act respecting Société Innovatech du sud du Québec (R.S.Q., c. S-17.2.2). The Société's mission is to promote and support initiatives likely to increase the capacity for technical innovation on the territory described in Schedule A of its incorporating Act, namely, all territories of the municipal agencies comprising the south-western portion of the province of Québec, and, thereby, to enhance Québec's competitiveness and economic growth.

The Société defines itself as a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société is not subject to income tax under federal and provincial income tax legislation.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Currency conversion

The Société uses the temporal method to convert its accounts into currency.

The elements of monetary assets and liabilities are converted at the exchange rate the date of the balance sheet. The other asset and liability elements are converted at the original rate. The account balance shown in the statement of results are converted at the fiscal year's average rate. Exchange gains and losses are included in the fiscal year's results.

Short-term investments

Short-term investments are recorded at their fair value.

Investments

Investments are recorded at their fair value, i.e. the estimated exchange value agreed on by competent parties acting freely under fully competitive conditions. The fair value was established as follows:

a) Unlisted shares

Unlisted shares comprise shares, shares in limited partnerships, debentures, loans and derivative instruments. They are evaluated using that are recognized on the market, including primarily reference to an offer to purchase or transactions with an unrelated third party and capitalization of cash flows.

Debentures and loans, including the corresponding capitalized and accrued interest, are presented at the estimated capitalizable value. When the amounts and moment of cash flow capitalization cannot be reasonably and reliably estimated, the estimated capitalization value is measured based on observable market prices for these loans or management's judgement.

When a loan is considered doubtful, the related interest is not recorded.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**2. ACCOUNTING POLICIES** (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 assets discount may be applied depending on the volume transacted to reflect the time involved in selling shares on the public market. Brokers' fees are considered in establishing the fair value.

Cash flows

Under cash and cash equivalents, the Société presents bank balances, minus outstanding cheques and short-term investments that are convertible in the short term and whose value is unlikely to change.

Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated useful lives on a straight-line basis at the following rates:

Furniture and equipment	20%
Computer equipment and material	20% and 33%
Leasehold improvements	20% or the remainder of the lease

The Société regularly examines the book value of its fixed assets by comparing their book value with unrealized future cash flows expected to be generated by the asset. Any surplus in the book value over the fair value is posted to results for the period in which the depreciation was determined.

Proceeds reporting*Investment income*

Investment operations are recorded the date of the operation and the resulting proceeds 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 disposal of investments are established using the average cost method.

Other proceeds

The other proceeds are recorded when there is convincing evidence of an agreement, services have been rendered, the price is determined 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.

4. ACCOUNTS RECEIVABLE

	2006	2005
Accounts receivable	\$2 925	\$89 489
Other	21 440	12 622
	<u>\$24 365</u>	<u>\$102 111</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. INVESTMENTS AND LOANS**

	Fair value 2006	Fair value 2005
Common shares		
Private corporations	\$335 848	\$2 025 215
Public corporations	3 193 979	655 048
Securities convertible to shares		
Preferred shares		
Redeemable		52 900
Non-redeemable	511 017	6 112 222
Debentures and loans		
maturing between 2006 to 2008	1 575 896	5 840 593
no maturity date	25 000	250 000
Non-convertible securities		
Preferred shares		
Redeemable		16 294
Non-redeemable		95 558
Debentures and loans		
maturing between 2006 to 2010	25 000	494 358
Shares in a limited partnership	160 600	100 645
	<u>\$5 827 340</u>	<u>\$15 642 833</u>

6. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Furniture and equipment	\$24 103	\$18 532	\$5 571	\$7 636
Computer equipment and material	30 594	19 806	10 788	10 133
Leasehold improvements	45 243	22 622	22 621	39 637
	<u>\$99 940</u>	<u>\$60 960</u>	<u>\$38 980</u>	<u>\$57 406</u>

7. CAPITAL STOCK

The Act respecting the Société Innovatech du Sud du Québec is notably designed to enable the Société to survive and be endowed with an authorized partnership fund of \$100 000 000.

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

	2006	2005
Authorized:		
1 000 000 common shares with a par value of \$100 each		
Issued and paid:		
555 008 common shares (535 008 shares in 2005)	<u>\$55 500 800</u>	<u>\$53 500 800</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**7. CAPITAL STOCK (cont'd)**

During the fiscal year, the Société issued 20 000 common shares for a cash consideration of \$2 000 000 (2005: 15 000 common shares for an amount of \$1 500 000).

8. CASH FLOWS

Cash and cash equivalents shown in the cash flow statements include the following amounts posted to the balance sheet:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$3 387 925	\$836 018
Short-term investment	<u>391 162</u>	<u>380 972</u>
	<u>\$3 779 087</u>	<u>\$1 216 990</u>

9. RELATED PARTY TRANSACTIONS

The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The issuing of capital stock, already disclosed in the financial statements, was recorded at exchange value. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. COMMITMENTS

The Société committed, under a lease, to renting offices for a two-year period ending March 31, 2007. As at March 31, 2006, total commitments represent \$51 902.

As at March 31 2006, the Société's commitments with respect to financial support for initiatives are of \$1 416 683 (\$2 313 713 as at March 31, 2005). These commitments represent the investments authorized by the Société's board of directors, which had not been disbursed at March 31, 2006. Following certain events, these amounts might not be paid out.

11. CONTINGENCIES

In a transaction involving the sale of an investment, the Société vouched for the buyer until September 2006 against potential claims for a maximum amount of \$200 000. It is impossible to determine whether the Société will have to assume this responsibility. If disbursements are necessary, they will be posted to the fiscal year in which the commitment is made.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**12. FINANCIAL INSTRUMENTS****Fair value**

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

Credit risk

The Société is exposed to the economic conditions affecting the sectors in which it carries out its activities. At March 31, 2006, investments fall into the following sectors:

	2006	2005
Biotechnologies	78%	33%
Information technologies	16%	60%
Industrial technologies	6%	7%

Interest-rate risk

Interest rates on investments and the inherent risk to which the Société is exposed regarding interest rates at March 31, 2006 are summarized below:

	Fair value	
	Convertible debentures and loans	Non convertible debentures and loans
		Total
Fixed rates :		
10 and 11%	\$50 000	\$50 000
12 and 13%	524 896	524 896
14 and 15%	1 026 000	\$25 000
16 % and more		1 051 000
	<u>\$1 600 896</u>	<u>\$25 000</u>
		<u>\$1 625 896</u> \$

Average effective interest rate: 13.88%.

13. COMPARATIVE FIGURES

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

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech du sud du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements for the year ended March 31, 2006. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Daniel Poisson, M.B.A.
President and Chief Executive Officer

Lucie Parent, B.A.A.
Comptroller

Sherbrooke, May 12, 2006

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, 2006, the revenues and deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles from Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 12, 2006

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
(R.S.Q., c. S-17.4)

REVENUE
for the year ended March 31, 2006

	2006	2005 (Adjusted) (Note 2)
REVENUES		
Investment income	\$1 210 292	\$1 150 818
Interest on demand deposits and short-term investments	184 098	95 947
Management fees	112 123	43 857
Materialized gains on sale of investments	9 265 579	2 353 223
Variation in unmaterialized increase in values	5 063 945	(915 121)
	<u>15 836 037</u>	<u>2 728 724</u>
EXPENSES		
Operating expenses (Note 12):		
Salaries and fringe benefits	825 319	923 075
Professional and contractual services	197 025	102 293
Rent	123 360	124 283
Advertising and promotion	41 273	17 438
Travelling and business development	53 256	37 398
Office expenses	108 687	77 742
Communications	18 437	18 172
Exchange losses	79 313	44 541
Depreciation of tangible assets	30 806	45 195
	<u>1 477 476</u>	<u>1 390 137</u>
Bad debts	4 001	68 624
Materialized loss on sale of investments	3 567 632	10 338 461
Variation in unmaterialized decrease in values	9 103 404	10 688 730
	<u>12 675 037</u>	<u>21 095 815</u>
	<u>14 152 513</u>	<u>22 485 952</u>
NET INCOME (NET LOSS)	<u>\$1 683 524</u>	<u>\$(19 757 228)</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**DEFICIT**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Adjusted) (Note 2)
OPENING BALANCE		
Previously established	\$52 961 394	\$40 631 169
Change in accounting policy (Note 2)	<u>5 795 233</u>	<u>(1 631 770)</u>
Adjusted balance	58 756 627	38 999 399
Net income (net loss)	<u>1 683 524</u>	<u>(19 757 228)</u>
CLOSING BALANCE	<u><u>\$57 073 103</u></u>	<u><u>\$58 756 627</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

BALANCE SHEET
as at March 31, 2006

	2006	2005 (Adjusted) (Note 2)
ASSETS		
Current assets		
Cash on hand	\$4 039 542	\$4 670 797
Short-term investments (Note 4)	12 504 597	905 646
Accounts receivable (Note 5)	315 251	196 052
Proceeds from sales receivable	499 899	255 820
Prepaid expenses	25 528	36 422
	<u>17 384 817</u>	<u>6 064 737</u>
Proceeds from sales receivable	499 899	
Investments (Notes 7 and 14)	51 965 735	62 021 203
Tangible assets (Note 6)	<u>28 529</u>	<u>53 982</u>
	<u><u>\$69 878 980</u></u>	<u><u>\$68 139 922</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	<u>\$168 987</u>	<u>\$113 453</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 9)	126 783 096	126 783 096
(Deficit)	<u>(57 073 103)</u>	<u>(58 756 627)</u>
	<u>69 709 993</u>	<u>68 026 469</u>
	<u><u>\$69 878 980</u></u>	<u><u>\$68 139 922</u></u>
COMMITMENTS (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-APPALACHES**CASH FLOW**

for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u> (Adjusted) (Note 2)
OPERATING ACTIVITIES		
Net income (net loss)	\$1 683 524	\$(19 757 228)
Elements not affecting cash flows:		
Depreciation of tangible assets	30 806	45 195
Capital interest on investments	(507 224)	(839 643)
Materialized gains on sale of investments (Note 11)	(9 265 579)	(2 353 223)
Variation in unmaterialized increase in values (Note 11)	(5 063 945)	915 121
Materialized loss on sale of investments (Note 11)	3 567 632	10 338 461
Variation in unmaterialized decrease in values (Note 11)	9 103 404	10 688 730
Other elements with no effect on cash flows	(932)	1 740
	<u>(452 314)</u>	<u>(960 847)</u>
Change in non-cash items linked to operations (Note 10)	<u>(296 850)</u>	<u>430 804</u>
Cash flows used for operating activities	<u>(749 164)</u>	<u>(530 043)</u>
INVESTMENT ACTIVITIES		
Acquisition of tangible assets	(5 469)	(15 078)
Acquisition of investments (Note 11)	(6 531 459)	(6 583 679)
Recovery of debentures, loans and refundable contributions (Note 11)	1 842 233	1 008 359
Proceeds from disposal of shares (Note 11)	<u>16 411 555</u>	<u>5 695 921</u>
Cash flows provided by investment activities	<u>11 716 860</u>	<u>105 523</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10 967 696	(424 520)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5 576 443</u>	<u>6 000 963</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$16 544 139</u>	<u>\$5 576 443</u>
Cash on hand	\$4 039 542	\$4 670 797
Short-term investments	<u>12 504 597</u>	<u>905 646</u>
Cash and cash equivalents, end of year	<u>\$16 544 139</u>	<u>\$5 576 443</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Société Innovatech Québec et Chaudière-Appalaches is a legal person established in the public interest under Chapter 80 of the 1993 statutes and continued as a corporation through its governing statute the Act respecting Société Innovatech Québec et Chaudière-Appalaches (R.S.Q., c. S-17.4). The Société's mission is to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act and, thereby, to enhance Québec's competitiveness and economic growth

The Société defines itself as a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société is not subject to income tax under federal or provincial income tax legislation.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

2. CHANGE IN ACCOUNTING POLICY

During the year, the Société applied the recommendations of accounting guideline ACG-18 "Investment companies" published by the Canadian Institute of Chartered Accountants, which defines the criteria for determining whether a company is an investment corporation and also establishes that investments held by an investment corporation, formerly reported at cost, are reported at their fair value by posting changes in fair value to the results statement.

These recommendations were adopted retroactively and the financial statements presented for past fiscal years were retired. The balance of the deficit at March 31, 2004 was reduced by \$1 631 770, while the deficit at March 31, 2005 was increased by \$5 795 233. At March 31, 2005, the balance of investment in the balance sheet was reduced by \$5 795 233 and the net loss increased by \$7 427 003.

3. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The main estimates related to evaluation of the fair value of investments. If the circumstances or economic context underlying these estimates were to change, management's decisions could change. The real results may differ from these estimates.

Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly. Short-term investments are recorded at fair value.

Investments

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.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

3. ACCOUNTING POLICIES (cont'd)**Investments (cont'd)**

The fair value of investments, other than quoted, made during the current fiscal year is presumed not to have changed during the year and to equal the book value, 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.

Tangible assets

Tangible assets are recorded at acquisition cost and amortized over their services lives on a straight-line basis as follows:

Equipment	6 years
Data processing equipment	3 years
Leasehold improvements	4 years
Office equipment	4 years

The Société regularly examines the book value of its fixed assets by comparing their book value with unactualized future cash flows to be generated by the asset. Any surplus in the book value over the value is posted to results for the period in which the depreciation was determined.

Proceeds 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. Materialized gains or losses on the sale of investments are reported when realized, based on the cost.

Currency conversion

The elements of monetary assets or liabilities are converted at the exchange rate the date of the balance sheet. The other elements of assets or liabilities are converted at the original rate. Proceeds in currency are converted at the exchange rate in effect when the transaction took place. Exchange gains or losses are included in the results statement.

4. SHORT-TERM INVESTMENTS

	2006	2005
Deposit certificate at 2.45 %, maturing May 2005		\$604 800
Banker's acceptance at 2.55%, maturing May 2005		300 846
Deposit certificate at 3.5 %, maturing April 2006	\$496 715	
Deposit certificate at 3.7 %, maturing April 2006	1 195 884	
Deposit certificate at 4.55 %, maturing April 2006	1 395 783	
Deposit certificate at 3.75 %, maturing May 2006	1 987 540	
Deposit certificate at 3.85 %, maturing June 2006	7 428 675	
	<u>\$12 504 597</u>	<u>\$905 646</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. ACCOUNTS RECEIVABLE**

	2006	2005
Interest receivable on investments including a \$57 734 provision for doubtful debts (2005: \$53 078)	\$248 922	\$180 650
Accrued interest on short-term investments	33 852	2 095
Other, including a \$10 348 provision for doubtful debts (2005: \$11 003)	32 477	13 307
	<u>\$315 251</u>	<u>\$196 052</u>

6. TANGIBLE ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$136 880	\$129 432	\$7 448
Data processing equipment	130 204	118 833	11 371
Leasehold improvements	143 144	134 760	8 384
Office equipment	15 716	14 390	1 326
	<u>\$425 944</u>	<u>\$397 415</u>	<u>\$28 529</u>
			<u>\$53 982</u>

7. INVESTMENTS

	2006	2005 (Adjusted) (Note 2)
Common stock		
private corporations	\$7 293 192	\$11 164 995
public corporations	17 200 618	11 879 897
Securities convertible into common stock:		
Capital stock	14 552 692	25 728 011
Debentures and loans (Note 14b)		
maturing from 2005 to 2015	7 469 588	7 009 707
on demand		2 338 543
Securities not convertible		
Capital stock	1 743 326	230 000
Debentures and loans (Note 14b)		
maturing from 2006 to 2009	1 088 677	720 050
on demand	272 921	200 000
Refundable contributions (Note 14b)		
maturing in 2010 et 2011	2 094 721	2 500 000
no maturity date	250 000	250 000
	<u>\$51 965 735</u>	<u>\$62 021 203</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESNOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**8. RENEWABLE CREDIT DEMAND**

A credit demand renewable on July 31, 2006 was authorized in the amount of \$3 000 000 at the financial institution's Canadian prime rate, which represents 3.5% at the date of the balance sheet. At March 31, 2006, the credit balance was zero.

9. CAPITAL STOCK

The Act respecting the Société Innovatech Québec et Chaudière-Appalaches is notably designed to enable the Société to survive and to be endowed with an authorized partnership fund of \$150 000 000.

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

	<u>2006</u>	<u>2005</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>

10. CHANGE IN NON-CASH ITEMS LINKED TO OPERATIONS

	<u>2006</u>	<u>2005</u>
Change in accounts receivable *	\$(363 278)	\$491 024
Change in prepaid expenses	10 894	(9 959)
Change in accounts payable	<u>55 534</u>	<u>(50 261)</u>
	<u>\$(296 850)</u>	<u>\$430 804</u>

* Including proceeds from disposal receivable in the short term.

11. INVESTMENT ACTIVITIES

	<u>2006</u>	<u>2005</u> (Adjusted) (Note 2)
Acquisition of investments	\$7 440 522	\$13 804 048
Non-monetary transactions	<u>(909 063)</u>	<u>(7 220 369)</u>
Cash flows - Acquisition of investments	<u>\$6 531 459</u>	<u>\$6 583 679</u>
Recovery of debentures, loans and refundable contributions	\$2 053 833	\$1 408 359
Non-monetary transactions	<u>(211 600)</u>	<u>(400 000)</u>
Cash flows – Recovery of debentures, loans and refundable contributions	<u>\$1 842 233</u>	<u>\$1 008 359</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

 NOTES TO FINANCIAL STATEMENTS (cont'd)
 March 31, 2006

11. INVESTMENT ACTIVITIES (cont'd)

	2006	2005 (Adjusted) (Note 2)
Proceeds from the disposal of shares minus commission	\$16 909 018	\$12 516 290
Non-monetary transactions	<u>(497 463)</u>	<u>(6 820 369)</u>
Cash flows— Proceeds from sale of shares	<u>\$16 411 555</u>	<u>\$5 695 921</u>
Gains on disposal of investments	\$9 053 979	\$2 253 237
Non-monetary transactions	<u>211 600</u>	<u>99 986</u>
Cash flows – Gains on disposal of investments	<u>\$9 265 579</u>	<u>\$2 353 223</u>
Variation in unmaterialized decreases in value	\$5 063 945	\$(840 121)
Non-monetary transactions	<u></u>	<u>(75 000)</u>
Cash flows –Variation in unmaterialized increases in value	<u>\$5 063 945</u>	<u>\$(915 121)</u>
Loss on disposal of investments	\$2 216 931	\$7 634 496
Non-monetary transactions	<u>1 350 701</u>	<u>2 703 965</u>
Cash flows –Loss on disposal of investments	<u>\$3 567 632</u>	<u>\$10 338 461</u>
Variation in unmaterialized decreases in value and write-offs	\$10 436 501	\$13 189 026
Non-monetary transactions	<u>(1 333 097)</u>	<u>(2 500 296)</u>
Cash flows –Variation in unmaterialized decreases in value and write-offs	<u>\$9 103 404</u>	<u>\$10 688 730</u>

12. RELATED PARTY TRANSACTIONS

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

13. COMMITMENTS

As at March 31, 2006, the Société's commitments with respect to financial support for initiatives amounted to \$5 586 570 (March 2005: \$5 426 026).

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, 2006. Depending on certain events, these amounts may not be paid out.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**14. FINANCIAL INSTRUMENTS****a) Credit concentration risk**

The credit risk results from the possibility that the other party to the operations not respect its commitments or not increase in value. The Société invests in corporations holding a promising competitive position on their respective markets and presenting strong growth potential. However, it is exposed to the economic conditions affecting the sectors in which it exercises its activities.

At March 31, the investment concentration breaks down as follows:

	2006	2005 (Adjusted) (Note 2)
Life sciences	27%	32%
Advanced applied technologies	35	32
Information technologies	30	32
Other venture capital funds	8	4

The highest concentration for the same investment is 10.3% of the fair value of total investments (9.5% at March 31, 2005).

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. Subsequently, 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 2005 to 2015		\$7 469 588	\$7 469 588
Debentures and non-convertible loans in common stock maturing from 2006 to 2009 on demand		1 088 677 272 921	1 088 677 272 921
Refundable contributions * maturing in 2010 and 2011 non maturity date	\$2 094 721 250 000		2 094 721 250 000
	<u>\$2 344 721</u>	<u>\$8 831 186</u>	<u>\$11 175 907</u>

* Contributions are refundable in the form of a royalty on sales.

** Interest rates vary between 7 and 15%.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

14. FINANCIAL INSTRUMENTS (cont'd)**c) Currency risk**

The Société has invested certain amounts in currencies, i.e. the US dollar. Consequently, certain asset elements are exposed to interest rate fluctuations. At March 31, 2006, the net asset in US dollars converted into Canadian dollars represented \$8 591 774 (\$10 006 796 at March 31, 2005). The Société uses no instrument to manage interest-rate fluctuation risks.

15. COMPARATIVE FIGURES

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

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech Québec et Chaudière-Appalaches were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The internal audit and investigations department carries out audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements for the fiscal year ended March 31, 2006.

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

Francine Laurent
President and Chief Executive Officer

Martin Auclair
Director, Finance and Administration

Québec, May 19, 2006

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, 2006 and the results, deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, apart from the change to the accounting policy for investments disclosed in Note 2, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 19, 2006

SOCIÉTÉ NATIONALE DE L'AMIANTE
(R.S.Q., c. S-18.2)

CONSOLIDATED REVENUES AND DEFICIT
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Balancing subsidy		(8)
Interest	16	15
Reimbursement of capital tax	<u>2</u>	<u>23</u>
	<u>18</u>	<u>30</u>
EXPENSES		
Administrative expenses	274	288
Professional services	<u>110</u>	<u>247</u>
	<u>384</u>	<u>535</u>
NET LOSS	(366)	(505)
DEFICIT, BEGINNING OF YEAR	<u>(157 551)</u>	<u>(157 046)</u>
DEFICIT, END OF YEAR	<u>(157 917)</u>	<u>(157 551)</u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED BALANCE SHEET
as at March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	50	86
Short-term investments (Note 3)	469	817
Accounts receivable	<u>3</u>	<u>3</u>
	<u>519</u>	<u>906</u>
 LIABILITIES		
Current liabilities		
Accounts payable et charges à payer	<u>67</u>	<u>88</u>
 SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	158 369	158 369
Deficit	<u>(157 917)</u>	<u>(157 551)</u>
	<u>452</u>	<u>818</u>
	<u>519</u>	<u>906</u>

CONTINGENCIES (Note 6)

On behalf of the Board of Directors,
Benoît Cartier, Director

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED CASH FLOW
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net loss	(366)	(505)
Net change in non-liquid assets working capital items	<u>(18)</u> (384)	<u>189</u> (316)
INVESTMENT ACTIVITIES		
Encashment of investment	<u></u>	<u>850</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(384)	534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>903</u>	<u>369</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>519</u></u>	<u><u>903</u></u>

The cash and cash equivalents comprise the cash on hand and short-term investments.

SOCIÉTÉ NATIONALE DE L'AMIANTE**NOTES TO FINANCIAL STATEMENTS**

for the year ended March 31, 2006

(in thousands of dollars)

1. ENTERPRISE DESCRIPTION

The Société nationale de l'amiante (SNA) is a government enterprise wholly owned by the Gouvernement du Québec. It was established by the Act respecting the Société nationale de l'amiante (R.S.Q., c. S-18.2) and holds investments in an inoperative enterprise.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been drawn up according to the accounting principles that are generally recognized in Canada and reflect the following main accounting policies:

Consolidation perimeter

The consolidated financial statements group together the accounts of the Société nationale de l'amiante and of its subsidiary Mines SNA (held 100%).

Continuing operations

The financial statements of the Société were prepared using accounting principles applicable to an operative enterprise.

Given that the Société has posted an operating loss for the past few years, it would be impossible for it to meet its financial obligations should the Gouvernement du Québec decide to withdraw its financial support.

If the continuing operations assumption is not suitable for the present financial statements, adjustments will have to be made to the book value assigned to the assets and liabilities, revenue and expenditure shown and classifications used in the balance sheet.

Allowance for loss on investments

The allowance for loss on investments is established on the basis of individual investments and is calculated according to the terms of the contracts between the parties.

Government subsidies

The Gouvernement du Québec provides financial assistance to enable the Société to meet its financial obligations and those of its subsidiary.

The amount of this financial assistance is entered under "deficiency grant" in the statement of income and is used to finance the Société's operating loss.

Use of estimates

Preparation of financial statements in keeping with the accounting principles generally accepted in Canada requires management to use estimates and assumptions that affect the assets and liabilities posted, presentation of potential assets and liabilities posted at the date of the financial statements, and proceeds and charges posted during the fiscal year. The real results might differ from the estimates.

Benefits tax

Since all of the Société's shares are held by the Gouvernement du Québec, the Société nationale de l'amiante is exempt from benefits tax, as is its wholly-owned subsidiary.

Cash and cash equivalents

The Société's cash and cash equivalents comprise cash and easily convertible financial instruments maturing within three months or less.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

3. SHORT-TERM INVESTMENTS

	<u>2006</u>	<u>2005</u>
Commercial paper, bearing interest at rate of 3.00%, maturing on April 3, 2006	199	
Commercial paper, bearing interest at rate of 2.60%, maturing on April 5, 2006	70	
Commercial paper, bearing interest at rate of 2.60% maturing on April 5, 2006	50	
Commercial paper, bearing interest at rate of 3.15%, maturing on April 24, 2006	150	
Commercial paper, bearing interest at rate of 2.25%, matured during the fiscal year		50
Commercial paper, bearing interest at rate of 2.43% matured during the fiscal year		200
Commercial paper, bearing interest at rate of 2.30%, matured during the fiscal year		199
Commercial paper, bearing interest at rate of 1.95% matured during the fiscal year		368
	<u>469</u>	<u>817</u>

4. INVESTMENTS

	<u>2006</u>	<u>2005</u>
Preferred Category C shares in Les Technologies Fibrox Ltée	500	500
Provision for lasting drop in value	500	500
	<u>500</u>	<u>500</u>

5. CAPITAL STOCK

Authorized
250 000 common shares with a par value of \$1 000 each

	<u>2006</u>	<u>2005</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.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2006
(in thousands of dollars)

6. CONTINGENCIES**Cases before the securities commissions**

Complaints were filed with the Ontario Securities Commission and the Commission des valeurs mobilières du Québec by a committee comprised of a number of minority shareholders of Asbestos Corporation Limited. The complaints allege that the SNA should have offered to buy all Asbestos Corporation Limited shareholders' stock on terms similar to those offered to General Dynamics Corporation (GD) for the purchase of shares in the private enterprise Mines SNA Inc., which controlled Asbestos Corporation Limited.

In a decision handed down on June 13, 2003, the Commission des valeurs mobilières du Québec concluded that there was no evidence showing that the SNA had failed to respect a provision of the Québec Securities Act and its regulations and that, consequently, there was no reason to grant the request of the minority shareholders.

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 within 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.

Attorneys SNA informed the Court of their intention to present preliminary means to try to have the proceeding refused at this stage.

Petition before the Québec Superior Court

In June 1995, the minority shareholders in Asbestos Corporation Limited filed a petition with the Québec Superior Court under section 241 of the Canada Business Corporations Act. They are claiming redress for the alleged oppression suffered at the hands of the Société nationale de l'amiante, in particular, which is a respondent in the case.

In response to a motion for dismissal filed by the Société, the court granted a suspension on the shareholders' petition until a final judgement is rendered in the other proceedings before the Québec and Ontario securities commissions (supra).

7. FINANCIAL INSTRUMENTS

The fair value of cash, short-term investments and accounts payable corresponds approximately to their book value given that they mature in the short term.

The fair value of preferred shares corresponds to their book value, namely zero value.

SOCIÉTÉ NATIONALE DE L'AMIANTE**AUDITORS' REPORT**

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, 2006 and the consolidated revenues and deficit and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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.

Samson Bélair/Deloitte & Touche S.E.N.C.R.L.
Chartered Accountants

April 4, 2006

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
(R.S.Q., c. S-18.2.1)

REVENUES
for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
REVENUES		
Management fees (Note 3)	292	396
Financial revenue		
Gouvernement du Québec	148 332	164 089
Municipalities	17 838	17 670
Other	<u>845</u>	
	<u>167 307</u>	<u>182 155</u>
 EXPENSES		
Salaries and social benefits (Notes 4 and 11)	210	215
Transportation and communications	18	23
Information system	44	61
Professional, administrative and other services	44	90
Repairs and maintenance	1	3
Rental	7	38
Supplies	3	3
Financial expenses (Note 5)	<u>166 980</u>	<u>181 722</u>
	<u>167 307</u>	<u>182 155</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

BALANCE SHEET
as at March 31, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Current assets		
Cash	748	60
Deposit in trust		950
Accounts receivable		
Gouvernement du Québec	50 507	56 977
Municipalities	5 447	5 868
Other	13	3
Gouvernement du Québec receivables (Note 6)	127 880	108 368
Amounts receivable from the municipalities (Note 6)	22 096	24 730
Prepaid expenses	7	28
Short-term portion of amortization fund (Note 7)	12 420	
	<u>219 118</u>	<u>196 984</u>
Long-term Gouvernement du Québec receivables (Note 6)	2 324 481	2 451 762
Long-term amounts receivable from the municipalities (Note 6)	203 210	229 393
Unbilled completed works	583	3 098
Long-term investment – amortization fund (Note 7)	57 125	
Other asset items	1 499	
	<u>2 806 016</u>	<u>2 881 237</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	56 594	63 951
Instalments on long-term debt (Note 8)	162 396	133 099
	<u>218 990</u>	<u>197 050</u>
Accounts payable and accrued liabilities on completed works	865	2 480
Long-term debt (Note 8)	2 585 350	2 680 689
Deferred revenue	811	1 006
Other liability items		12
	<u>2 806 016</u>	<u>2 881 237</u>

CONTINGENCIES (Note 9)

On behalf of the Board,
Maurice Masse
Marc Pinsonnault

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**CASH FLOW**

for the year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Cash inflow – management fees	97	36
Cash inflow – financial revenue	173 910	185 205
Cash outflow – interest paid	(173 941)	(185 920)
Cash outflow – other financial expenses	(1 841)	(3 190)
Cash outflow – administration expenses	(330)	(224)
Cash flows related to operating activities	<u>(2 105)</u>	<u>(4 093)</u>
INVESTMENT ACTIVITIES		
Amount charged to long-term receivables and unbilled completed works	(191)	(1 427)
Receipts on long-term receivables	139 292	87 436
Encashment – Trust Fund	950	
Encashment – Amortization Fund	10 116	
Acquisition – Trust Fund		(950)
Investment acquisition – Amortization Fund	<u>(79 661)</u>	<u></u>
Cash flows related to investing activities	<u>70 506</u>	<u>85 059</u>
FINANCING ACTIVITIES		
Repayment of accounts payable and accrued liabilities on completed works	(1 615)	(94)
Long-term debt	263 379	266 452
Repayment of long-term debt	<u>(329 477)</u>	<u>(347 360)</u>
Cash flows related to financing activities	<u>(67 713)</u>	<u>(81 002)</u>
INCREASE (DECREASE) IN CASH	688	(36)
CASH AT BEGINNING	<u>60</u>	<u>96</u>
CASH AT THE END	<u><u>748</u></u>	<u><u>60</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

(in thousands of dollars)

1. IDENTIFICATION, OBJECTIVES AND FINANCING

The Société québécoise d'assainissement des eaux, a corporation within the meaning of the Civil Code constituted by special act (R.S.Q., chapter S-18.2.1) has among others the following objectives:

- to design, construct, improve, enlarge, put in operation, finance or operate water purification works for the needs of municipalities or to carry out rehabilitation works on municipal sewerage systems;
- to carry out studies in respect to the rehabilitation of municipal sewerage systems;
- to carry out other studies in matters of sewerage and water purification;
- to finance development works on the beds, including the banks or shores and the land bordering thereon, of lakes or watercourses;
- to finance works which control the water-level of lakes or watercourses;
- to design, construct, improve, enlarge, put in operation or finance sewerage or watery systems or drinking water treatment installations for the needs of the territory chosen by the Government and located on the North Coast of the Gulf of St. Lawrence;
- to export its expertise in water resources engineering acquired in Québec, mainly by promoting, providing goods and services, and by encouraging the development of the industrial and technological potential of Québec in this field;
- to act as an adviser to municipalities in the construction and operation of water purification works;
- to provide technical and professional management assistance to municipalities for the construction of water purification works;
- to develop projects for the transfer and dissemination of new technologies relating to water purification and drinking water treatment and, with the authorization of the Ministère des Affaires municipales et des Régions to carry out those projects.

The Société québécoise d'assainissement des eaux is a governmental corporation which is non-profit oriented.

The Société bills the Gouvernement du Québec on behalf of municipalities and the municipalities for studies and water purification and watery and sewerage works it executes and for the financing of some works realized by municipalities.

The Société retains ownership of the works until they are handed over to the municipalities. These works are handed over when definitive delivery procedures of treatment plants are completed even though other costs may be incurred.

2. SIGNIFICANT ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Management fees

Management fees are established based on a percentage of the cost of water purification, sewerage, watery and other works.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Management fees (cont'd)**

- Billing

Management fees are billed in relation to the execution of the Société's mandate which covers the period of works completion as well as the period of debt management and financing related to these works.

Management fee revenues for water purification works are billed as follows:

- In relation to expenses incurred for studies;
- According to a uniform allocation over the estimated completion period (term basis) for the works.

For other works, including watery and sewerage, management fee revenues are billed based on a percentage of the cost of works completed.

- Deferred revenue

The Société is unable to accurately establish management fees earned yearly over the complete duration of its mandate.

Consequently, the annual surplus of management fees over net operating expenses is posted to deferred results or, in cases involving the opposite, deferred revenues 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, watery and sewerage works, and the financing of the watercourse bank development works and other works realized by municipalities, net of reimbursements received.

Long-term investment – Amortization Fund

Investments in the Amortization Fund are recorded at cost.

Other assets and liabilities items

The long-term debt premium and issuing costs are deferred. These items are amortized according to the rate in effect over the term of the loan.

Currency conversion

The long-term debts issued in foreign currency are converted in Canadian dollars at the rate of the financial instruments for hedging a foreign exchange risk.

Pension plan

The accounting of the defined contribution plan is applied to governmental multiemployer defined benefit plan, taking into account that the Société doesn't have enough information to apply the accounting of the regimes with definite services

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

3. MANAGEMENT FEES

	2006	2005
Management fees billed	97	36
Transfer to deferred revenue	195	360
	<u>292</u>	<u>396</u>

4. SALARIES AND SOCIAL BENEFITS

Wages paid to two employees reporting to the Ministère des Affaires municipales et des Régions (MAMR) within 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 for management of 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

	2006	2005
Interest on bonds and notes payable	163 676	178 254
Amortization of Gouvernement du Québec long-term debt (premium) discount	(1 455)	(1 318)
Cost of debt guaranteed by the government	1 122	1 841
Interest on bank loans	2 792	2 945
Interest on Amortization Fund credited to municipalities	845	
	<u>166 980</u>	<u>181 722</u>

The interest paid for the fiscal year relative to the loans contracted with the Financing Fund of the Gouvernement du Québec, a jointly-controlled entity, amounts to \$140 133 111 (2005: \$129 070 093). As at March 31, 2006, the accrued interest related to these loans and included in accounts payable and accrued liabilities amount to \$49 746 112 (2005 : \$48 976 421).

6. LONG-TERM RECEIVABLES

	2006	2005
Gouvernement du Québec	2 452 361	2 560 130
Current portion	<u>(127 880)</u>	<u>(108 368)</u>
	<u>2 324 481</u>	<u>2 451 762</u>
Municipalities	225 306	254 123
Current portion	<u>(22 096)</u>	<u>(24 730)</u>
	<u>203 210</u>	<u>229 393</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

6. LONG-TERM RECEIVABLES (cont'd)

The interest rate on long-term receivables is the same as the one the Société pays on its long-term debt. Receivables mature on the following terms:

Water purification studies:

Municipalities	5 years
Gouvernement du Québec	25 years
Studies and watery and sewerage works	10 years
Water purification works	
Municipalities	20 years
Gouvernement du Québec	25 years

The municipalities reimburse their accounts payable to the Société on every interest payment.

The Government reimburses its accounts payable, when the long-term debt matures, for an amount equal to the unfinanced portion of its accounts payable.

7. AMORTIZATION FUND

On December 15, 2005, the Société created an Amortization Fund bearing interest for repayment of the long-term debt from the periodic remittal of capital by the municipalities. Amortization Fund assets are deposited with the Ministère des Finances and generated a net average rate of return of 3.70% at March 31, 2006.

A net guaranteed rate of return of 4.878% on the outstanding average of the Amortization Fund's investment was accepted by the Société for the period April 1, 2006 to March 31, 2007.

Amortization Fund equity at March 31, 2006 breaks down as follows:

	<u>2006</u>
ASSETS	
Cash	38
Accrued interest receivable	1 154
Investment – Bonds	<u>68 397</u>
	<u>69 589</u>
LIABILITIES	
Management fees payable	(23)
Accrued interest payable	<u>(21)</u>
	<u>(44)</u>
FUND EQUITY	69 545
Short-term portion of Amortization Fund	<u>(12 420)</u>
Long-term Investment – Amortization Fund	<u><u>57 125</u></u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

8. LONG-TERM DEBT

Bonds and notes payable (a) (b)

Maturity	Canadian dollars	Eurodollars	2006	2005
2006				388 002
2007	238 524		412 970	410 780
2008	209 725	174 446	209 725	206 900
2009	116 955		116 955	114 825
2010	308 543		308 543	307 355
2011	591 389		591 389	
1 to 5 years	1 465 136	174 446	1 639 582	1 427 862
6 to 10 years	944 749		944 749	1 370 501
11 to 20 years	89 465		89 465	
	2 499 350	174 446	2 673 796	2 798 363
Bank loan (c)			73 950	15 425
			2 747 746	2 813 788
Current portion			(162 396)	(133 099)
			2 585 350	2 680 689

a Principal and interests on bonds and notes are guaranteed by the Gouvernement du Québec. At maturity, most of these debts will be refinanced on a long-term basis. An amount of \$2 449 349 704 (2005: \$2 430 129 103) was contracted with the financing fund of the Gouvernement du Québec, a jointly-controlled entity.

b Principal and interests on bonds and notes issued in foreign currencies are converted into Canadian and covered by swap agreements.

Swaps agreements are made directly with the Gouvernement du Québec and the risks related to these swaps are guaranteed by the Gouvernement du Québec.

Inflows and outflows related to these transactions are in Canadian dollars.

c These bank loans, which are not guaranteed by the Gouvernement du Québec, will be financed on a long-term basis upon completion of the financing terms. They carried, on average, an interest rate of 122 basis points lower than the Canadian charter banks prime rate. An amount of \$73 950 000 (2005: \$15 425 000) was contracted with the Financing Fund of the Gouvernement du Québec, a jointly-controlled entity.

The interest rates on bonds and notes presented in the following chart include the interest rate contracted on debts, discounts and all cost related to the issues.

Maturity	Canadian dollars	Eurodollars	2006 Weighted average	2005 Weighted average
1 to 5 years	5.73	7.72	5.94	6.35
6 to 10 years	5.30		5.30	5.62
11 to 20 years	4.77		4.77	
Weighted average	5.53	7.72	5.67	5.99

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2006

(in thousands of dollars)

9. CONTINGENCIES

At the date of the financial statements, claims and lawsuits from various suppliers amount to \$9.4 millions. The Société contests these litigations ensuing from works execution contracts. The Société's legal counsel is of the opinion that neither the possible outcome nor the amount of possible settlement, if any, can be foreseen. However, a provision for claims payable has been estimated by the Société's management. This provision is presented in the accounts payable and accrued liabilities on completed works. Any amount the Société will have to disburse to settle these litigations will be billed to the Gouvernement du Québec on behalf of the municipalities and to the municipalities.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, the Société is related to all departments and special funds as well as to all agencies and enterprises directly or indirectly controlled by the Gouvernement du Québec or subject to either joint control, or significant influence by the Gouvernement du Québec. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements and they are measured at exchange value.

11. PENSION PLANS

The Société employees contribute to the Government and Public Employees Retirement Plan (RREGOP) and Senior Management Personnel Pension Plan (RRAS). These are multiemployer defined benefit plans and include guaranteed payments upon retirement and death.

The Société contributions charged to the year-end statement amount for \$10 920 (2005: \$7 365). The liability of the Société towards these government plans is restricted to its contributions as an employer.

12. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term investments – Amortization Fund**

The fair market value of investments in the Amortization Fund of \$69 545 298 at March 31, 2006 amount to \$68 351 221 to reflect current market rates for similar securities. Investment values were not diminished since the Société consider the situation temporary.

Long-term debt

The fair market value of long-term debt of \$2 673 796 174 (2005: \$2 798 363 573) at March 31, 2006 amount to \$2 835 313 888 (2005: \$3 028 658 978) to reflect current market rates for similar securities and includes fair value of derived financial instruments

The temporary loans are financial instruments whose fair value approximates their carrying value of \$73 950 000 (2005: \$15 425 000) at March 31, 2006 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 \$2 835 000 000 (2005: \$3 029 000 000), as conditions of repayment are equivalent to those of long-term debt.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2006

(in thousands of dollars)

12. FINANCIAL INSTRUMENTS (cont'd)
FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)
Other current assets and liabilities

Cash, accounts receivable, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Derivative financial instruments

These financial instruments are contracts whose fair value fluctuate in function of subjacent security value and do not require holding or remittance of this one. The Société uses swap agreements with the Gouvernement du Québec as protection against the risk of fluctuating exchange rates. Swaps constitute an operation through which two parties agree to exchange financial flows in keeping with predetermined terms and conditions providing for a nominal reference amount and a time period.

	2006			2005
	Fair value			
	Nominal reference value	Asset	Liability	Net amount
Currency rate swaps	174 446		(37 411)	(37 411)

13. COMPARATIVE FIGURES

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

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'assainissement des eaux were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

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

Maurice Masse
Chairman of the Board of Directors

Marc Pinsonnault, L.L.B., B.Sc.
President and Chief Executive Officer

Montréal, May 9, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Société québécoise d'assainissement des eaux as at March 31, 2006 and the revenue and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, May 9, 2006

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
(R.S.Q., c. S-22.01)

REVENUE AND EQUITY
for the year ended March 31, 2006

	2006	2005
REVENUES		
Green tax on tires – Net (Note 3)	\$21 771 291	\$22 350 857
Revenue on consignment of throw-away containers – Net (Note 4)	9 993 898	3 873 161
Gouvernement du Québec transfers (Note 16)	1 775 294	1 933 307
Investment income	1 868 946	2 091 989
Revenue from industrial organizations (Note 5)	493 130	223 968
Revenue from glass recovery assistance program (Note 8)	707 826	713 116
Other	214 915	176 961
	<u>36 825 300</u>	<u>31 363 359</u>
PROGRAM EXPENSES		
Used-tired program (Note 6)	21 371 987	17 988 327
Contributions to the waste management plan development assistance program	1 318 334	1 866 666
Contributions to the financial assistance program for social economy businesses	1 156 399	150 000
Other non-refundable contributions (Note 7)	697 159	612 006
Contributions to the glass recovery assistance program (Note 8)	659 160	671 810
Contribution to the loss (recovery) facilities improvement program (Note 17)	2 605 518	763 866
Recovery (loss) on financial interests and loan guarantees	(99 685)	152 400
	<u>27 708 872</u>	<u>22 205 075</u>
MANAGEMENT EXPENSES		
Salaries and fringe benefits	3 294 139	3 660 182
Operations (Note 9)	1 422 003	1 214 863
Communications, education and awareness	1 208 282	677 685
	<u>5 924 424</u>	<u>5 552 730</u>
	<u>33 633 296</u>	<u>27 757 805</u>
EXCESS REVENUES OVER EXPENSES	3 192 004	3 605 554
EQUITY, BEGINNING OF YEAR	<u>31 898 403</u>	<u>28 292 849</u>
EQUITY, END OF YEAR	<u>\$35 090 407</u>	<u>\$31 898 403</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**BALANCE SHEET**
as at March 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash on hand	\$880 336	\$457 946
Short-term investments – at cost (Note 10)	6 398 991	8 708 015
Accounts receivable (Note 11)	12 908 129	9 770 429
Prepaid expenses	79 691	80 630
	<u>20 267 147</u>	<u>19 017 020</u>
Long-term investments (Note 12)	39 604 954	35 406 920
Fixed assets (Note 13)	<u>458 791</u>	<u>461 991</u>
	<u><u>\$60 330 892</u></u>	<u><u>\$54 885 931</u></u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 15)	\$10 629 090	\$5 312 371
Deferred Gouvernement du Québec transfers (Note 16)	3 092 137	3 204 392
Deposit entry on fines (Note 17)	672 312	2 855 044
Provision for contribution to the recovery facilities improvement program (Note 17)	1 739 365	457 215
Amounts refundable (Note 18)	1 308 804	2 943 827
	<u>17 441 708</u>	<u>14 772 849</u>
Allowance for loan guarantees (Note 20)		298 000
Allowance for refund of deposits	5 851 780	5 888 030
Allowance for payment of recovery incentives	<u>1 946 997</u>	<u>2 028 649</u>
	<u>25 240 485</u>	<u>22 987 528</u>
EQUITY	<u>35 090 407</u>	<u>31 898 403</u>
	<u><u>\$60 330 892</u></u>	<u><u>\$54 885 931</u></u>

COMMITMENTS (Note 21)

On behalf of the Board of Directors,
Michel Cyr, President
Christina L. Van Houtte, Director

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

CASH FLOW

for the year ended March 31, 2006

	2006	2005
OPERATING ACTIVITIES		
Excess revenues over expenses	\$3 192 004	\$3 605 554
Items not affecting cash and cash equivalents:		
(Recovery) losses on financial interest and loan guarantees	(99 685)	152 400
Loss (gain) on disposal of investments	37 658	(246 530)
Loss (gain) on disposal of fixed assets	22 994	(13 383)
Depreciation of fixed assets	185 550	196 262
Amortization of the discount and premium on investments – net	293 154	271 929
	3 631 675	3 966 232
Changes in assets and liabilities related to operations		
Accounts receivable	(3 137 700)	1 512 445
Prepaid expenses	939	3 576
Accounts payable	5 316 719	223 011
Deferred Gouvernement du Québec transfers	(112 255)	(1 322 671)
Temporary deposits on penalties	(2 182 732)	(300 847)
Provision for contribution to the recovery facilities improvement program	1 282 150	54 130
Amounts refundable	(1 635 023)	1 440 566
Allowance for refund of deposits	(36 250)	109 774
Allowance for payment of recovery incentives	(81 652)	16 728
	(585 804)	1 736 712
Cash flows provided by operating activities	3 045 871	5 702 944
INVESTMENT ACTIVITIES		
Amount paid as a final settlement of the loan guarantee	(299 714)	
Amount recovered on the loan recovery	101 399	
Proceeds from disposal of investments	29 431 936	27 512 749
Acquisition of investments	(33 960 782)	(27 672 777)
Acquisition of fixed assets	(206 594)	(158 881)
Proceeds from disposal of fixed assets	1 250	33 208
Cash flows used for investment activities	(4 932 505)	(285 701)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1 886 634)	5 417 243
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9 165 961	3 748 718
CASH AND CASH EQUIVALENTS, END OF YEAR	\$7 279 327	\$9 165 961
THE BREAKDOWN OF CASH AND CASH EQUIVALENTS IS AS FOLLOWS:		
Cash on hand	\$880 336	\$457 946
Short-term investments	6 398 991	8 708 015
	\$7 279 327	\$9 165 961

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS as at March 31, 2006

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 administrate 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.
- the 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 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". This Regulation came into effect on March 1, 2005. During this fiscal year, no amount was recorded to the results statement since the Société failed to obtain government approval of the rates. When the Société gets this authorization, revenues and expenses will be reported in the fiscal year in which they can be measured and are known.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, preparation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Revenue reporting

Revenues are reported when they are 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 disposal of investments are established using the average cost method. The costs of transactions associated with the acquisition or disposal of investments are included in the cost of investments acquired or treated as a reduction in proceeds from the disposal of investments.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

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

Fixed assets are recorded at cost and depreciated over the estimated service life according to the straight-line method.

	<u>Duration</u>
Fixed 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 using the straight-line method over the duration remaining for each security. The amortization of discounts and premiums is recorded under investment income. Investment management fees are deducted from investment income.

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 obtained for specific programs are deferred and posted to results as income according to the expenses related to them.

Allowance for losses on loan guarantees

The allowance for losses is calculated by evaluating potential losses on each activity individually.

Allowance for the refund of deposits

An allowance has been set up to provide the sums required to refund deposits on containers sold before March 31 that will be recovered after the end of the year or after the agreements expire. This allowance was established according to the recovery rates anticipated by management, after deducting deposits recorded on containers recovered derived from sales during the year. For the purposes of the allowance, the recovery rate for 5¢ containers has been set at 71.40% as at March 31, 2006 (2005: 71.82%), and at 82.96% for 10¢ containers (2005: 83.24%) and at 77.93% for 20¢ containers (2005: 83.24%).

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 FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

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 for containers sold, reimbursements of consignment amounts and recovery incentives is calculated based on the declarations provided by parties to the beer agreement.

In keeping with the agreements, declarations are subject, among other things, to inspection. Adjustments following these inspections are, where applicable, charged to revenue for the fiscal year in which they are known.

Pension plans

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

Cash flows

The Commission's policy consists in presenting under cash and cash equivalents bank balances and investments that can easily be converted in the short term to a known amount of cash, whose value is not likely to change significantly.

3. GREEN TAX ON TIRES – NET

	2006	2005
Green tax on tires	\$22 083 108	\$22 691 094
Administrative costs on tax collection	(311 817)	(340 237)
	<u>\$21 771 291</u>	<u>\$22 350 857</u>

4. REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET

	2006	2005
Soft drinks and others		
Consignment amounts on containers sold	\$533 729	\$456 584
Reimbursement of consignment amounts	(237 297)	(261 449)
Recovery incentive premiums	36 915	(26 411)
	<u>333 347</u>	<u>168 724</u>
Royalty – bottlers	717 266	722 177
Fines acquired – bottlers	7 549 702	1 803 406
Other revenue	<u>3 746</u>	<u>6 150</u>
Net revenue for the year (amounts carried forward)	<u>\$8 604 061</u>	<u>\$2 700 457</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

4. REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET (cont'd)

	2006	2005
Net revenue for the year (amounts brought forward)	\$8 604 061	\$2 700 457
Beer		
Consignment amounts on containers sold	22 913 336	20 230 803
Reimbursement of consignments amounts	(17 927 401)	(15 944 690)
Recovery incentive premiums	(2 552 773)	(2 423 339)
	2 433 162	1 862 774
Amount repayable to brewers	(1 970 607)	(1 298 348)
	462 555	564 426
Royalty – brewers	153 858	136 918
Fines acquired – brewers	122 595	184 799
Other revenue	414 173	22 192
Recovered management fees	236 656	264 369
Net revenue for the year	1 389 837	1 172 704
	\$9 993 898	\$3 873 161

Under the agreement on the consignment, recovery and recycling of throw-away soft drink containers that took effect in December 1, 1999, the collection and reimbursement of consignment amounts and the payment of recovery incentive premiums are carried out by a non-profit organization designated by Québec soft drink bottlers.

The royalties and penalties provided for in the two agreements are paid to the Société and management fees are invoiced to the brewing industry for management of their agreement.

5. REVENUE FROM INDUSTRIAL ORGANIZATIONS

Under a paint container recovery agreement, twice a year, a non-profit organization designated by paint manufacturers must pay the Société an amount for information, awareness, education, coordination and results monitoring purposes.

Under the agreement on the recovery and recycling of used oil, oil or fluid containers and used filters, a non-profit organization designated by this industry's businesses must pay a semi-annual contribution to the Société to cover costs related to coordination, agreement monitoring, assistance in attaining objectives, participation in information, education and awareness, development of markets and recovery and recycling technologies, results analysis and auditing.

	2006	2005
Contributions for paint	\$163 881	\$127 288
Contributions for used oil	329 249	96 680
	\$493 130	\$223 968

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

6. USED-TIRE PROGRAM

	2006	2005
Site emptying	\$7 709 464	\$4 641 236
Transportation and stockpiling	9 346 649	7 647 195
Re-employment assistance	44 866	37 577
Recycling assistance – primary processing	3 763 196	4 423 037
Technological development assistance	52 500	1 282
Assistance for energy use	283 144	928 706
Discount for prepayment	172 168	309 294
	<u>\$21 371 987</u>	<u>\$17 988 327</u>

7. OTHER NON-REFUNDABLE CONTRIBUTIONS

	2006	2005
Information, education and awareness	\$429 548	\$374 295
Pilot projects and experiments	237 078	187 639
Other projects	30 533	50 072
	<u>\$697 159</u>	<u>\$612 006</u>

8. GLASS RECOVERY ASSISTANCE PROGRAM

The Société administers, in partnership with the Société des alcools du Québec (SAQ), a glass recovery and recycling assistance program in Québec. Under existing agreements with the Société des alcools du Québec, all of the financial assistance paid for the transport and sorting of glass is reimbursed by the Société des alcools du Québec (SAQ) and 50% of the assistance allotted to processors for technological development designed to the recycle glass. Moreover, the management fees are paid to the Société.

9. OPERATING EXPENSES

	2006	2005
Professional fees	\$428 816	\$234 422
Information highway	32 878	56 851
Courier services and telecommunications	75 579	54 402
Rent, taxes and insurance	377 624	386 134
Travelling	125 557	119 864
Equipment rental	17 661	18 335
Maintenance and repairs	28 226	33 856
Supplies and miscellaneous expenses	33 146	33 939
Representation, meetings and conferences	36 505	32 960
Training and upgrading	17 064	35 966
Subscriptions, documentation and assessments	20 463	25 255
Depreciation of fixed assets	185 550	196 262
Loss (gain) on disposal of fixed assets	22 994	(13 383)
Relocation	19 940	
	<u>\$1 422 003</u>	<u>\$1 214 863</u>

10. SHORT-TERM INVESTMENTS

Short-term investments, recorded at cost, represent discount notes and bonds maturing within a year. Fixed interest rates vary from 3.55% to 5.55%. These investments mature during the next fiscal year.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

11. ACCOUNTS RECEIVABLE

	2006	2005
Deposits	\$3 866 952	\$2 161 941
Fines – bottlers and brewers (Note 17)	5 489 565	2 855 044
Tires	2 765 636	3 105 492
Gouvernement du Québec transfer receivable		610 636
Other	611 927	577 271
Accrued interest	174 049	460 045
	<u>\$12 908 129</u>	<u>\$9 770 429</u>

12. LONG-TERM INVESTMENTS

	2006	2005
Bonds 3.57% to 5.45%, maturing on various dates up to March 2011	\$27 257 907	\$23 787 683
Bond mutual fund units	12 347 047	11 619 237
	<u>\$39 604 954</u>	<u>\$35 406 920</u>

Bonds mature as follows:

	2006	2005
2007		\$8 387 350
2008	\$15 600 451	1 541 238
2009	6 452 040	2 005 745
2010	2 030 657	9 762 240
2011	3 174 759	2 091 110
	<u>\$27 257 907</u>	<u>\$23 787 683</u>

The management fees for the fiscal year's investments total \$107 540 (2005: \$96 365).

13. FIXED ASSETS

	2006		2005
	Cost	Accumulated depreciation	Net
Fixed assets			
Furniture and equipment	\$485 501	\$296 150	\$189 351
Data processing equipment	349 939	269 362	80 577
Leasehold improvements	58 014	40 344	17 670
	<u>893 454</u>	<u>605 856</u>	<u>287 598</u>
Sub-total			<u>329 677</u>
Intangible assets			
Software	154 736	142 141	12 595
Data processing development	330 851	172 253	158 598
	<u>485 587</u>	<u>314 394</u>	<u>171 193</u>
	<u>\$1 379 041</u>	<u>\$920 250</u>	<u>\$458 791</u>
			<u>\$461 991</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

14. BANK LOAN

The Société has a bank credit line of \$200 000, without guarantee, renewable annually. The amounts used bear interest at the bank prime rate, which was 5.50% at the date of the financial statements. At March 31, 2006, the balance borrowed was zero.

15. ACCOUNTS PAYABLE

	2006	2005
Salaries and fringe benefits	\$439 865	\$587 946
Accounts payable and accruals	3 343 996	937 263
Deposit on contract payable	383 966	424 466
Deposits and recovery incentives	2 995 395	1 390 689
Non-refundable contributions – used-tire program	3 465 868	1 972 007
	<u>\$10 629 090</u>	<u>\$5 312 371</u>

16. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS

	2006	2005
Education, awareness, R&D and composting projects		\$47 088
Government assistance program for waste management plans	\$1 228 334	2 546 668
Financial assistance program for social economy businesses working in the context of waste management plans	1 863 803	610 636
	<u>\$3 092 137</u>	<u>\$3 204 392</u>

During a previous fiscal year, the Société collected \$3 000 000 in Gouvernement du Québec subsidies applicable to support for educational projects, awareness, research and development and waste composting. At March 31, 2006, this entire amount had been used for these purposes, including \$47 088 this fiscal year.

Moreover, in previous fiscal years, the Société collected \$9 240 000 in Gouvernement du Québec subsidies under an order-in-council dated March 27, 2002 for the implementation of the Québec government assistance program for the development of waste management plans. At March 31, 2006, the amounts used totalled \$8 011 666, \$1 318 334 in the present fiscal year.

Finally, under an Order-in-council dated March 30, 2005, the Société received a Gouvernement du Québec subsidy of \$2 273 674 for the implementation of the financial assistance program for social economy 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, \$1 156 399 has been used, with \$409 871 from the government subsidy. Since the beginning, \$1 306 399 has been used, including \$409 871 of the government subsidy.

17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM

Under two consignment agreements in effect, Boissons gazeuses environnement and members of the beer agreement must fine the Société a provisional amount for unpaid recovery objectives. However, after an amendment made in 2005 to the soft drink agreement, fines prior to 2004 will now be paid on December 31 of the same year.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM (cont'd)

The fine related to the consignment, recovery and recycling of throwaway beer containers will be acquitted on December 31, 2006 only if the objective set in the 2005 agreement was not attained. Interest earned on the unpaid fine amounts are payable annually to beer agreement signatories. At March 31, 2006, the amount of the provisional fines was \$672 312 (2005: \$2 855 044) broken down as follows:

	2006	2005
Boissons gazeuses environnement		\$2 732 449
Members— brewers	\$672 312	122 595
	<u>\$672 312</u>	<u>\$2 855 044</u>

Since the recovery objective for 2004 stipulated in the agreements was not attained at December 31, 2005, the provisional fine for 2004 was deemed paid in the amount of \$2 732 449. Further, the 2005 fine stipulated in the Boissons gazeuses environnement agreement in the amount of \$4 817 253 was also posted to revenues for the fiscal year.

However, under the same agreement, the Société agreed to use the fine levied to reimburse Boissons gazeuses environnement for the costs incurred under the recovery facilities improvement program. The Société's financial obligation is limited to the 75% of the fines levied during the year for unattained recovery objectives or the investment duly made by Boissons gazeuses environnement under the program during this same year or in the 120 days following the end of the year.

In fiscal 2005-2006, the Société committed to cover expenditures \$2 605 518 in the Recovery Facilities Improvement Program. The provision for this contribution totalled \$1 739 365 at March 31, 2006.

18. AMOUNTS REFUNDABLE

	2006	2005
Amounts refundable to Boissons gazeuses environnement		\$ 2 099 488
Amounts refundable to brewers	\$1 308 804	844 339
	<u>\$1 308 804</u>	<u>\$2 943 827</u>

Under the consignment agreement, throw-away soft drink container recovery and recycling, in effect since December 1, 1999, Boissons gazeuses environnement, the organization representing the signatories, must refund certain amounts paid by the Société or to be refunded by the Société from some of the amounts it has disbursed. As at March 31, 2006, no amount was owed to Boissons gazeuses environnement (2005: \$2 099 488).

Under the agreement respecting the consignment, recovery and recycling of non-refillable beer containers, in effect from January 1, 2003 to December 31, 2006, the parties must reimburse to the Société the amount of the annual deficit (calendar year) arising from the deposit-return systems for their containers (consignment collected and reimbursed, recovery incentives and administrative expenses). In cases where the annual results calculated are too high, the 67% surplus will be returned to members. The balance is used for container recovery and recycling education and awareness and for the development of the residual matter technologies market. At March 31, 2006, the Société estimated the amounts refundable to brewers at \$1 308 804 (2005: \$844 339) which represent the share of the surplus of the consignment system paid to brewers.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

19. RELATED PARTY TRANSACTIONS

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

20. PROVISION FOR LOAN GUARANTEES

The Société signed a loan guarantee agreement for a maximum of \$490 000 for which the provision was \$298 000 at March 31, 2005. The file was settled during the fiscal year. In the final settlement of the loan guarantee according to the transfer agreement, the amount paid by the Société was \$299 714 and the recovery reported was \$99 685.

21. COMMITMENTS

The Société is committed through long-term leases for administrative offices. The Montréal lease ended on October 31, 2007 and includes a five-renewal option. The Québec City lease ended on March 31, 2012.

Rental costs for the fiscal year ending March 31, 2006 for these administrative offices were \$335 675. Minimum future payments are as follows:

2007	\$343 507
2008	248 804
2009	114 513
2010	114 513
2011	114 513
2012	114 513
	<u>\$1 050 363</u>

22. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Short-term assets and liabilities**

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

Long-term investments

At March 31, 2006, the fair value of investments of \$39 604 954 (2005: \$35 406 919) was \$39 693 210, (2005: \$35 867 863), given the capitalization of cash flows at the market rate for securities with similar maturity dates and interest rates.

Provision for losses on loan guarantees, provision for reimbursement of deposits, provision for payment of recovery-incentive premiums

The fair value of these provisions is equal to their book value given that they are revalued annually.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2006

23. FUTURE FRINGE BENEFITS**Pension Plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plan and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$144 995 (2005: \$116 161). The Société's liability towards these Government plans is restricted to its contributions as an employer.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

MANAGEMENT'S REPORT

The financial statements of the Société québécoise de récupération et de recyclage (Recyc-Québec) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Robert Lemieux
President General Director

Richard Boisvert, CA
Vice-President, Finance and Administration

Québec, July 12, 2006

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, 2006 and the revenue and equity and cash flow statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2006 and the results of the operations and cash flows for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, July 12, 2006

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)
(R.S.Q., c. I-20)

REVENUES
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES FROM PUBLICATIONS AND SERVICES	\$12 469 276	\$12 033 323
COST OF PUBLICATIONS AND SERVICES (Note 3)	<u>7 328 658</u>	<u>7 701 378</u>
GROSS MARGIN	5 140 618	4 331 945
OVERHEAD EXPENSES (Note 4)	<u>4 054 623</u>	<u>3 835 189</u>
NET REVENUES	<u><u>\$1 085 995</u></u>	<u><u>\$496 756</u></u>

The notes are an integral part of these financial statements.

SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
SURPLUS, BEGINNING OF YEAR	\$1 000 000	\$1 000 000
NET INCOME	<u>1 085 995</u>	<u>496 756</u>
	2 085 995	1 496 756
NET INCOME OWING TO THE GOUVERNEMENT DU QUÉBEC (Note 5)	<u>(1 085 995)</u>	<u>(496 756)</u>
SURPLUS, END OF YEAR	<u><u>\$1 000 000</u></u>	<u><u>\$1 000 000</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Cash	\$1 513 528	\$1 923 606
Accounts receivable	1 576 675	1 763 094
Inventory	477 266	445 502
Prepaid expenses	239 287	284 971
	<u>3 806 756</u>	<u>4 417 173</u>
Fixed assets (Note 6)	<u>1 498 222</u>	<u>1 580 270</u>
	<u><u>\$5 304 978</u></u>	<u><u>\$5 997 443</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 7)	\$1 641 091	\$1 853 958
Deferred revenue	983 072	1 026 513
	<u>2 624 163</u>	<u>2 880 471</u>
Net revenues to be remitted to the Gouvernement du Québec	1 085 995	1 653 181
Provision for sick leave (Note 10)	494 192	436 289
Deferred lease inducement	<u>100 628</u>	<u>27 502</u>
	<u>4 304 978</u>	<u>4 997 443</u>
SURPLUS	<u>1 000 000</u>	<u>1 000 000</u>
	<u><u>\$5 304 978</u></u>	<u><u>\$5 997 443</u></u>

COMMITMENTS (Note 11)

On behalf of the Société,
Guy Mercier
Lucie Lauzière

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société québécoise d'information juridique (SOQUIJ) was established under a special act (R.S.Q., c. I-20) for the purpose of promoting research, processing and development of legal information in order to improve its quality and accessibility to the general public.

Under the Income Tax Act (R.S.C.1985, c. 1, 5th Supplement) and the Taxation Act (R.S.Q., c. I-3), the Société is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

The cash flow statement is not shown as it would not provide any useful additional information on the Funds' cash flows during the year.

As of this fiscal year, the Société began applying, 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.

Proceeds reporting

Proceeds from service delivery and sales were recorded once the following conditions have 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.

Inventory

Inventory of publications is valued at the lower of cost and net realizable value. The cost of each publication includes direct design and publishing costs (labour, materials and printing) and related indirect costs. The contributions of certain agencies are deducted from this amount.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

Office furniture and leasehold improvements	5 years
Data processing equipment	3 years
Data processing system	7 years *

* The data processing system is amortized over 7 years as of the date it became operational, i.e. January 1, 2004 to December 31, 2010. Acquisitions related to this data processing system are amortized over the period remaining.

Deferred revenue

Receipts from subscriptions and other publications are deferred and then transferred to operations upon shipment.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQIJ)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES
Pension plans

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

3. COST OF PUBLICATIONS AND SERVICES

	2006	2005
Salaries, fringe benefits and corporate charges	\$5 151 529	\$4 966 054
Depreciation of fixed assets	513 260	444 809
Formatting and printing	384 444	435 950
Equipment rental and maintenance	300 313	374 768
Advertising	296 477	483 587
Professional fees	277 757	306 182
Communications and shipping	265 975	275 082
E-data warehouse	239 000	252 000
Royalties	109 877	121 632
Travelling and representation	29 503	29 787
Rent, taxes and insurance	25 339	23 350
Inventory variation	(31 763)	204 650
Contributions of certain organizations	(233 053)	(216 473)
	<u>\$7 328 658</u>	<u>\$7 701 378</u>

4. OVERHEAD EXPENSES

	2006	2005
Salaries, fringe benefits and corporate charges	\$2 280 552	\$2 283 600
Rent, municipal taxes and insurance	815 956	807 870
Professional fees	179 591	160 467
Advertising	179 026	
Subsidy to an agency	175 000	130 000
Travelling and representation	97 433	96 053
Staff training	89 455	90 197
Documentation and supplies	79 795	90 190
Depreciation of fixed assets	44 828	43 371
Communications and shipping	38 949	42 263
Equipment rental and maintenance	25 154	45 409
Other	48 884	45 769
	<u>\$4 054 623</u>	<u>\$3 835 189</u>

The fiscal year's amortization of the deferred lease inducement was \$27 502 (2005: \$16 501) recorded as a decrease in rental costs.

5. SURPLUS

The net income of the Société's fiscal year must be paid into the Consolidated Revenue Fund of the Gouvernement du Québec, after constituting a working fund. This amount, which is determined by the government, has been set at \$1 000 000.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**6. FIXED ASSETS**

	2006		2005
	Cost	Accumulated depreciation	Net
Leasehold improvements	\$33 762		\$33 762
Office furniture	358 540	\$294 071	\$108 206
Data processing equipment	2 753 912	2 340 174	556 820
Data processing system	1 342 349	356 096	915 244
	<u>\$4 488 563</u>	<u>\$2 990 341</u>	<u>\$1 580 270</u>

Acquisitions of fixed assets for the year amount to \$403 185 (2005: \$697 057).

7. PAYABLES AND ACCRUED EXPENSES

	2006	2005
Salaries, fringe benefits and corporate charges	\$976 298	\$1 078 863
Other payables and accrued expenses	<u>664 793</u>	<u>775 095</u>
	<u>\$1 641 091</u>	<u>\$1 853 958</u>

8. FINANCIAL INSTRUMENTS**Fair value**

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

9. RELATED PARTY TRANSACTIONS

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

The Société also has a service exchange agreement with the Ministère de la Justice du Québec. The value of these services cannot be reasonably estimated.

10. FUTURE FRINGE BENEFITS**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (MPRP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$313 971 (2005: \$237 033). The Société's liability towards this Government plan is restricted to its contributions as an employer.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

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

	2006	2005
Opening balance	\$436 289	\$387 339
Charges for the year	236 775	206 858
Benefits paid during the year	(178 872)	(157 908)
Closing balance	<u>\$494 192</u>	<u>\$436 289</u>

11. COMMITMENTS

The Société is committed to long-term leases for office space, warehousing and equipment, expiring on various dates until December 2021. The minimum lease payments for the coming fiscal years are as follows:

2007	\$1 039 916
2008	985 916
2009	981 747
2010	769 407
2011	784 488
2012 and thereafter	<u>9 221 198</u>
	<u>\$13 782 672</u>

12. COMPARATIVE FIGURES

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

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'information juridique (SOQUIJ) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

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

Claude Paul-Hus
Director General

Yves Boulanger
Accounting Coordinator

Montréal, June 6, 2006

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, 2006 and the revenue and surplus statements for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 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, June 6, 2006

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)
(R.S.Q., c. S-12.01)

REVENUES AND SURPLUS
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$53 985 300	\$53 985 300
Repayment of long-term debt	723 220	723 521
Transfer of deferred subsidies (Note 13)	1 379 000	810 123
Activities involving the production and distribution of educational material	1 304 040	1 300 538
Other	148 000	731 700
	<u>57 539 560</u>	<u>57 551 182</u>
Sales, services and other incomes	<u>15 859 834</u>	<u>13 798 473</u>
	<u>73 399 394</u>	<u>71 349 655</u>
EXPENSES (Note 4)		
Programming	44 964 863	35 551 012
Production and technology	13 873 818	14 475 768
Administration	11 094 738	11 822 476
Marketing and communications	6 174 679	5 556 268
Institutional development	434 936	451 496
Depreciation of fixed assets	3 512 330	3 695 924
Financial expenses – net (Note 5)	41 756	53 270
Share in the results of the satellite corporation	(16 355)	48 559
	<u>80 080 765</u>	<u>71 654 773</u>
EXCESS EXPENSES OVER REVENUES	(6 681 371)	(305 118)
SURPLUS, BEGINNING OF YEAR	<u>8 819 473</u>	<u>9 124 591</u>
SURPLUS, END OF YEAR	<u>\$2 138 102</u>	<u>\$8 819 473</u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)BALANCE SHEET
as at March 31, 2006

	2006	2005
ASSETS		
Current assets		
Accounts receivable	\$6 174 919	\$5 014 569
Gouvernement du Québec subsidies receivable (Note 6)	3 269 392	1 425 259
Programs produced and in production	494 968	1 738 244
Broadcastings and distribution rights and participation in outside productions	17 407 358	26 551 250
Production and technical supplies	438 709	431 612
Prepaid expenses	239 229	304 379
	<u>28 024 575</u>	<u>35 465 313</u>
Long-term investment (Note 7)	2 597 682	2 581 327
Gouvernement du Québec subsidies receivable (Note 6)	17 258 427	16 730 076
Fixed assets (Note 8)	<u>15 586 925</u>	<u>17 222 347</u>
	<u><u>\$63 467 609</u></u>	<u><u>\$71 999 063</u></u>
LIABILITIES		
Current liabilities		
Outstanding cheques less cash on hand	\$1 333 773	\$573 876
Short-term borrowings (Note 9)	9 035 652	16 034 962
Accounts payable and accruals (Note 10)	7 418 952	8 884 561
Broadcasting and distribution rights and participation in outside productions – payable	11 772 262	10 768 951
Instalments on long-term debt (Note 11)	1 818 449	1 781 524
Deferred incomes (Note 13)	2 832 181	2 385 248
	<u>34 211 269</u>	<u>40 429 122</u>
Long-term debt (Note 11)	17 309 046	13 072 668
Gouvernement du Québec advance (Note 12)	2 750 000	2 750 000
Deferred incomes (Note 13)	7 059 192	6 927 800
	<u>61 329 507</u>	<u>63 179 590</u>
SURPLUS	<u>2 138 102</u>	<u>8 819 473</u>
	<u><u>\$63 467 609</u></u>	<u><u>\$71 999 063</u></u>
COMMITMENTS (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Martine Tremblay
Robert Forget

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)CASH FLOW
for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess expenses over revenues	\$(6 681 371)	\$(305 118)
Items not affecting liquid assets:		
Depreciation of fixed assets	3 512 330	3 695 924
Transfer of deferred incomes	(2 253 856)	1 181 442
Loss on disposal of fixed assets	24 082	7 993
Share in the results of the satellite corporation	(16 355)	48 559
	<u>(5 415 170)</u>	<u>4 628 800</u>
Change in non-cash items elements related to operations (Note 14)	<u>9 810 621</u>	<u>4 898 510</u>
Cash flows provided by operating activities	<u>4 395 451</u>	<u>9 527 310</u>
FINANCING ACTIVITIES		
Gouvernement du Québec subsidies receivable	(528 351)	(3 871 480)
Borrowing from the Financing Fund	(3 318 310)	3 543 748
Long-term debt	6 054 827	
Repayment of long-term debt	<u>(1 781 524)</u>	<u>(1 781 524)</u>
Cash flows provided by financing activities	<u>426 642</u>	<u>(2 109 256)</u>
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(1 900 990)	(4 999 402)
Proceeds from disposal of fixed assets		<u>3 100</u>
Cash flows used for investment activities	<u>(1 900 990)</u>	<u>(4 996 302)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2 921 103	2 421 752
DEFICIENCY IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(12 674 876)</u>	<u>(15 096 628)</u>
DEFICIENCY IN CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	<u><u>\$(9 753 773)</u></u>	<u><u>\$(12 674 876)</u></u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)NOTES TO FINANCIAL STATEMENTS
March 31, 2006**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, Télé-Québec was established by the Act respecting the Société de télévision du Québec (R.S.Q., c. S-12.01).

The main purpose of Télé-Québec is to operate an educational and cultural television broadcasting service and a service for producing and disseminating audiovisual, multimedia and television broadcasts.

2. ACCOUNTING POLICIES

Preparation of the Société's financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Proceeds recording*Subsidies*

Subsidies are posted as revenues in the fiscal year in which the corresponding spending occurs. Subsidies receivable for fixed assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the funding or performed the work giving rise to these subsidies.

Sales, services and other proceeds

Sales, services and other proceeds are recorded when there is convincing evidence of an agreement that the services have been rendered to the client, that the price has been determined or can be determined and that encashment is reasonably certain.

Programs produced and in production

Programs already produced and in production are entered at average cost. Cost includes the direct cost of supplies and services in addition to the share of labour costs and overhead allocated to each program. The average cost for a given program is charged to operations when the program is initially broadcast or if it is declared unusable.

Broadcasting and distribution rights and participation in outside productions

Broadcasting and distribution rights for audiovisual material are generally acquired for five years. They are capitalized then charged to operations according to the number of broadcasts made and on the following basis, except where they are posted based on the considerations attached to these rights:

70% for the first broadcast;
30% for the second broadcast;

Rights on films deemed unusable are written off as soon as such a decision is made.

Télé-Québec's participation in outside productions and the attendant rights are deferred and then charged in full to operations when the program is first broadcast, except where they are posted based on the considerations attached to these rights.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

2. ACCOUNTING POLICIES (cont'd)**Production and technical supplies**

The inventory of production and technical supplies is recorded at cost or net realizable value, whichever is lower. Cost is determined according to the average cost method.

Long-term investments

Investment in a satellite corporation is recorded on an equity basis. The portfolio investment is recorded at acquisition value. When the investment posts a permanent decline in value, its book value is reduced to reflect this decline. This reduction is posted directly to the fiscal year's operations.

Fixed assets

Fixed assets are recorded at cost.

The antenna array includes buildings, materials, engineering services, infrastructures, direct labour costs, interest on interim financing during construction and the attendant overhead.

Fixed assets are depreciated according to the straight-line method at the following rates:

	<u>Rate</u>
Antenna array	5%
Improvements to antenna array	10%
Technical equipment	10%
Furniture and fixtures	10%
Data processing equipment	20%
Automotive equipment	20%
Leasehold improvements	Term of lease, maximum 5 years
Grouping of installations:	
Technical equipment	6.67%
Furniture and fixtures	6.67%
Leasehold improvements	Term of lease, maximum 15 years

Cash and cash equivalents

Télé-Québec's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts and loans from financial institutions contracted to meet short-term cash flow commitments.

Pension plans

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

3. REVIEW OF AN ACCOUNTING ESTIMATE

Beginning this fiscal year, broadcasting the distribution rights for audiovisual documents are posted to operations on the basis of 70% for the first broadcast and 30% for the second. Previously, these rights were posted to operations on the basis of 50% for the first broadcast, 30% for the second and 20% for the third. This review of an accounting estimate results in a \$8 887 411 increase in the surplus of expenses over revenues for the fiscal year.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

4. EXPENSES BY CATEGORY

	2006	2005
Salaries and fringe benefits	\$23 796 273	\$24 449 695
Transportation and communications	4 256 372	3 847 635
Professional, administrative and other services	4 639 391	4 522 362
Rent	6 278 808	6 757 191
Materials and supplies	1 912 538	2 089 756
Broadcasting and distribution rights	32 924 004	25 330 041
Depreciation of fixed assets	3 512 330	3 695 924
Direct expenses – independent productions	1 442 146	1 015 076
Direct expenses – service delivery	22 109	45 990
Financial expenses	41 756	53 270
Accounts receivable written off	4 035	67 385
Share in the results of the satellite corporation	(16 355)	48 559
Loss on disposal of fixed assets	24 082	7 993
	<u>78 837 489</u>	<u>71 930 877</u>
Programs produced and in production, participation in outside productions – change for the year	<u>1 243 276</u>	<u>(276 104)</u>
	<u><u>\$80 080 765</u></u>	<u><u>\$71 654 773</u></u>

5. FINANCIAL EXPENSES - NET

	2006	2005
Interest on long-term debt	\$1 116 173	\$1 145 937
Interest on loans from financial institutions	41 756	53 484
Interest on borrowings from Financing Fund	77 929	55 692
Gouvernement du Québec subsidy – interest on short-term debt	(77 929)	(55 906)
Gouvernement du Québec subsidy – interest on long-term debt	<u>(1 116 173)</u>	<u>(1 145 937)</u>
	<u><u>\$41 756</u></u>	<u><u>\$53 270</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 fixed assets and their maintenance, minus capital repayments already made on long-term debt, and those to be made in the coming fiscal year.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

7. LONG-TERM INVESTMENTS

	2006	2005
Investment in a satellite corporation	\$2 587 840	\$2 571 485
Portfolio investment	9 842	9 842
	<u>\$2 597 682</u>	<u>\$2 581 327</u>

Investment in a satellite corporation

Télé-Québec holds 25% of shares in a corporation whose main activity is to maintain a French-language television service on arts and culture.

Portfolio investment

Télé-Québec holds 4.44% of shares in a corporation whose main activity is signal management.

8. FIXED ASSETS

	2006			2005
	Cost	Accumulated depreciation	Net	Net
Antenna array, including improvements	\$29 236 757	\$25 552 342	\$3 684 415	\$3 871 736
Technical equipment	23 602 842	16 784 016	6 818 826	7 399 350
Furniture and fixtures	1 535 746	1 132 739	403 007	489 126
Data processing equipment	6 943 495	5 526 933	1 416 562	1 399 789
Automotive equipment	919 119	689 739	229 380	336 299
Leasehold improvements	2 507 715	1 413 442	1 094 273	1 149 249
	<u>64 745 674</u>	<u>51 099 211</u>	<u>13 646 463</u>	<u>14 645 549</u>
Grouping of installations:				
Technical equipment	4 620 644	3 663 554	957 090	1 265 037
Furniture and fixtures	653 331	522 902	130 429	173 985
Leasehold improvements	4 272 508	3 419 565	852 943	1 137 776
	<u>9 546 483</u>	<u>7 606 021</u>	<u>1 940 462</u>	<u>2 576 798</u>
	<u>\$74 292 157</u>	<u>\$58 705 232</u>	<u>\$15 586 925</u>	<u>\$17 222 347</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. SHORT-TERM BORROWINGS

	2006	2005
Loans from financial institutions (rate as at March 31: 4.00%)	\$8 420 000	\$12 101 000
Loans from Financing Fund (rate as at March 31: 4.17%)	615 652	3 933 962
	<u>\$9 035 652</u>	<u>\$16 034 962</u>

Loans from financial institutions

Télé-Québec has credit with a financial institution that is renewed annually on September 30. At March 31, 2006, the maximum amount Télé-Québec could borrow was \$16 000 000. The sums borrowed bear interest at the prime rate when the credit margin is used and bear interest at the average rate of one-month bank acceptances, plus a 0.3% margin that replaces the issuing and management costs in the case of a bank acceptance.

Borrowings from the Financing Fund

Under its assets maintenance program, Télé-Québec has an authorized credit, which is renewable annually, with the Financing Fund for certain work and equipment purchases. At March 31, 2006, the maximum amount Télé-Québec could use was \$6 000 000. Amounts used bear interest at the average one-month bank acceptances rate plus 0.3% in lieu of issuing and management fees.

In the next fiscal year, the corporation foresees contracting short-term borrowings under Order-in-Council 69-2006 or through additional credit lines specifically related to carrying out projects essential to the modernization of Télé-Québec up to a total of \$10 000 000, until October 31, 2006.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2006	2005
Suppliers and accrued expenses	\$4 045 097	\$5 029 106
Various accounts payable	6 000	73 081
Salaries and fringe benefits payable	3 367 855	3 782 374
	<u>\$7 418 952</u>	<u>\$8 884 561</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

11. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
	<u>2005</u>	<u>2004</u>
Bond, series "I", 11.25%, maturing May 25, 2008	\$5 000 000	\$5 000 000
Borrowings on note from the Financing Fund of the Gouvernement du Québec:		
3.828% repayable in an instalment of \$556 985 until May 2010	2 784 927	3 326 874
6.22% repayable in annual instalments of \$469 106 until June 1, 2005		469 106
4.798% repayable in annual instalments of \$503 525 until February 27, 2014	4 028 197	4 531 722
5.795%, repayable in annual instalments of \$254 415 until December 1, 2010	1 272 075	1 526 490
4.2739%, repayable in annual instalments of \$201 409 until December 1, 2015	3 021 148	
4.2739%, repayable in annual instalments of \$302 114 until December 1, 2015	<u>3 021 148</u>	
	19 127 495	<u>14 854 192</u>
Instalments due within one year	<u>1 818 449</u>	<u>1 781 524</u>
	<u>\$17 309 046</u>	<u>\$13 072 668</u>

Principal payments on the long-term debt over the next five fiscal years are as follows:

2006	\$1 818 449
2007	1 818 449
2008	6 818 449
2009	1 818 449
2010	1 818 449

12. GOUVERNEMENT DU QUÉBEC ADVANCE

A \$2 750 000 advance was granted Télé-Québec for its investment in a satellite corporation. Where applicable, the advance will be repaid the date the satellite corporation dissolves or the date Télé-Québec recovers the capital invested or December 31, 2011 at the very latest. Interest costs correspond to net profits earned on the investment of the \$2 750 000 to an annual maximum equal to the prime rate. Interest accrues since the advance's disbursement and are payable as of the year the satellite corporation begins distributing profits annually, up to the amount distributed. Under the shareholder agreement, no profit distribution is authorized prior to August 31, 2007.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

13. DEFERRED INCOMES

	2006	2005
Gouvernement du Québec subsidies		
Subventions related to fixed assets for repayment of the long-term debt		
Opening balance	\$8 314 800	\$4 195 441
Deferred incomes for the fiscal year	2 050 392	4 929 482
Transfer to revenue for the fiscal year	(1 379 000)	(810 123)
Closing balance	8 986 192	8 314 800
Production and distribution of educational Material		4 040
Specific projects	493 300	633 300
	9 479 492	8 952 140
Other incomes from outside productions	354 080	304 201
Rent collected in advance	57 801	56 707
	9 891 373	9 313 048
Less: Current portion		
Gouvernement du Québec subsidies	2 420 300	2 024 340
Other incomes from outside productions	354 080	304 201
Rent collected in advance	57 801	56 707
	2 832 181	2 385 248
	\$7 059 192	\$6 927 800

14. CASH FLOWS

	2006	2005
Change in non-cash elements related to operations		
Change in accounts receivable	\$(1 160 350)	\$(199 612)
Change in accounts receivable from the Gouvernement du Québec	(1 844 133)	1 628 286
Change in broadcasts completed and being produced	1 243 276	(276 888)
Increase in TV broadcasting and distribution rights and participation in outside productions	9 143 892	2 943 816
Change in technical and production supplies	(7 097)	(19 287)
Change in prepaid expenses	65 150	(60 271)
Change in accounts payable and accrued liabilities	(1 465 609)	(1 804 109)
Change in TV broadcasting and distribution rights and participation in outside productions payable	1 003 311	301 327
Change in deferred incomes	2 832 181	2 385 248
	\$9 810 621	\$4 898 510

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**14. CASH FLOWS (cont'd)**

The shortfall of cash and cash equivalents show in the cash flow statement includes the following amounts recorded in the balance sheet:

	<u>2006</u>	<u>2005</u>
Cheques outstanding minus cash	\$1 333 773	\$573 876
Borrowings from financial institutions	<u>8 420 000</u>	<u>12 101 000</u>
	<u>\$9 753 773</u>	<u>\$12 674 876</u>

The interest paid during the fiscal year totalled \$1 139 873 (2005: \$1 236 914).

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, 2006, amount to \$5 558 065 (2005: \$6 036 647).

Minimum future payments are as follows:

2007	\$5 404 831
2008	4 612 420
2009	4 478 699
2010	4 367 694
2011	4 367 694
2012 and thereafter	<u>34 339 770</u>
	<u>\$57 571 108</u>

16. PENSION PLANS

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

Télé-Québec's contributions charged to the year-end statement amount to \$985 471 (2005: \$834 117). Télé-Québec's liability towards these Government plans is restricted to its contributions as an employer.

17. FINANCIAL INSTRUMENTS**Long-term debt**

At March 31, 2006, the fair value of the long-term debt of \$19 127 495 (2005: \$14 854 192) was \$20 260 966 (2005: \$16 430 539) given the capitalization of the cash flows at the market rate for securities with similar maturity dates and interest rates.

The fair value of short-term borrowings corresponds to the book value of these securities given that they are renewed in the near future.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

17. FINANCIAL INSTRUMENTS (cont'd)**Other assets and liabilities**

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

Long-term investments

The fair value of long-term investments cannot be estimated given the lack of a market for this type of investment.

Gouvernement du Québec subsidies receivable

The fair value of Gouvernement du Québec subsidies receivable of \$20 173 776 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 either joint control or significant influence by it. Télé-Québec did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

19. SERVICE EXCHANGES

Télé-Québec exchanged services over the fiscal year for approximately \$546 700 (2005: \$447 233). 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 2005 figures were reclassified for consistency with the presentation adopted in 2006.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**MANAGEMENT'S REPORT**

The financial statements of Télé-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Télé-Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

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

Michèle Fortin
President and Chief Executive Officer

Michèle Parent
General Manager, Administration and Finance

Montréal, June 2, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Télé-Québec as at March 31, 2006 and the revenue and surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Télé-Québec management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, Télé-Québec's financial position as at March 31, 2006 and the results of its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 2, 2006

TRIBUNAL ADMINISTRATIF DU QUÉBEC
(R.S.Q., c. J-3)

REVENUE
for the year ended March 31, 2006

	2006	2005	2004
REVENUES			
Contribution from the Ministère de la Justice	\$10 315 379	\$10 481 460	\$9 993 200
Other contributions (Note 3)	18 275 541	18 525 215	17 956 800
Rate-setting	174 741	216 146	105 340
Interest on bank deposits and short-term investments	242 999	135 975	133 737
Other	374 662	25 548	26 682
	<u>29 383 322</u>	<u>29 384 344</u>	<u>28 215 759</u>
EXPENSES			
Salaries and fringe benefits	19 768 768	19 870 260	20 136 061
Rent	3 216 724	3 447 993	3 446 233
Transportation and communications	1 292 389	1 181 548	1 122 844
Professional and administrative services	1 591 689	1 530 958	1 493 328
Maintenances and repairs	282 874	248 854	265 212
Materials and supplies	291 887	260 802	240 134
Amortization of fixed assets	542 197	574 857	715 066
Amortization of intangible assets	385 177	453 055	443 622
Interest on long-term debt	227 723	224 954	238 161
Other		7 175	25 942
	<u>27 599 428</u>	<u>27 800 456</u>	<u>28 126 603</u>
Surplus proceeds over expenses before contributions for transition allocations	1 783 894	1 583 888	89 156
Contributions for transition allocations (Note 7c)	<u>5 255 700</u>		
SURPLUS REVENUES OVER EXPENSES	<u><u>\$7 039 594</u></u>	<u><u>\$1 583 888</u></u>	<u><u>\$89 156</u></u>

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC
ACCUMULATED SURPLUS
 for the year ended March 31, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>
DEFICIT, BEGINNING OF YEAR	\$(4 059 338)	\$(5 643 226)	\$(5 732 382)
Surplus revenues over expenses	<u>7 039 594</u>	<u>1 583 888</u>	<u>89 156</u>
SURPLUS (DEFICIT), END OF YEAR	<u><u>\$2 980 256</u></u>	<u><u>\$(4 059 338)</u></u>	<u><u>\$(5 643 226)</u></u>

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

BALANCE SHEET
as at March 31, 2006

	2006	2005	2004
ASSETS			
Current assets			
Cash on hand (Note 11)	\$8 887 392	\$6 392 587	\$3 831 470 \$
Accounts receivable and accrued interest	384 699	27 812	36 484
Prepaid expenses	138 993	124 682	30 945
Contributions for transition allocations receivable maturing within one year (Note 7c)	404 136		
	<u>9 815 220</u>	<u>6 545 081</u>	<u>3 898 899</u>
Contributions for transition allocations receivable (Note 7 c)	4 435 444		
Fixed assets (Note 4)	3 229 477	3 462 067	3 772 214
Intangible assets (Note 5)	<u>1 358 225</u>	<u>1 360 964</u>	<u>1 242 282</u>
	<u>\$18 838 366</u>	<u>\$11 368 112</u>	<u>\$8 913 395</u>
LIABILITIES			
Current liabilities			
Accounts payable and accruals	\$3 187 506	\$2 937 941	\$2 539 313
Instalments on long-term debt (Note 6)	231 735	216 615	202 484
Instalments on provision for transition allocations (Note 7b)	404 136	242 721	113 221
Instalments on provision for transition allocations (Note 7d)	430 000	430 000	430 000
	<u>4 253 377</u>	<u>3 827 277</u>	<u>3 285 018</u>
Long-term debt (Note 6)	2 739 315	2 971 050	3 187 665
Provision for transition allocations (Note 7b)	5 248 509	5 541 797	5 783 565
Provision for sick leave (Note 7d)	2 355 849	2 257 247	2 300 373
Deferred contributions	<u>1 261 060</u>	<u>830 079</u>	<u></u>
	15 858 110	15 427 450	14 556 621
ACCUMULATED SURPLUS (DEFICIT)	<u>2 980 256</u>	<u>(4 059 338)</u>	<u>(5 643 226)</u>
	<u>\$18 838 366</u>	<u>\$11 368 112</u>	<u>\$8 913 395</u>

The notes are an integral part of these financial statements.

On behalf of the Tribunal,
Jacques Forgues, President
André Dallaire, Department Head, Financial and Material Resources

TRIBUNAL ADMINISTRATIF DU QUÉBEC

CASH FLOW

for the year ended March 31, 2006

	2006	2005	2004
OPERATING ACTIVITIES			
Surplus revenues over expenses	\$7 039 594	\$1 583 888	\$89 156
Elements not affecting cash:			
Amortization of fixed assets	542 197	574 857	715 066
Amortization of intangible assets	387 977	453 055	443 622
Amortization of deferred contributions	(219 019)	(50 921)	
Gain on disposal of fixed assets	(2 440)		
	<u>7 748 309</u>	<u>2 560 879</u>	<u>1 247 844</u>
Change in non-cash elements linked to operations (Note 8)	<u>(4 381 712)</u>	<u>896 434</u>	<u>(276 404)</u>
Cash flows from operating activities	<u>3 366 597</u>	<u>3 457 313</u>	<u>971 440</u>
INVESTMENT ACTIVITIES			
Acquisition of fixed assets	(300 784)	(152 204)	(134 366)
Acquisition of intangible assets	(356 833)	(541 508)	(486 271)
Proceeds from disposal of fixed assets	<u>2 440</u>		
Cash flows used for investment activities	<u>(655 177)</u>	<u>(693 712)</u>	<u>(620 637)</u>
FINANCING ACTIVITIES			
Cash flows used for financing activities:			
Long-term debt reimbursement	<u>(216 615)</u>	<u>(202 484)</u>	<u>(189 277)</u>
INCREASE IN CASH ON HAND	2 494 805	2 561 117	161 526
CASH ON HAND, BEGINNING OF YEAR	<u>6 392 587</u>	<u>3 831 470</u>	<u>3 669 944</u>
CASH ON HAND, END OF YEAR	<u>\$8 887 392</u>	<u>\$6 392 587</u>	<u>\$3 831 470</u>
Additional information			
Interest paid	\$210 823	\$224 954	\$238 161
Fixed assets unpaid at end of year	121 329	112 506	76 862
Intangible assets unpaid at end of year	58 634	30 229	35 041

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS March 31, 2006

1. CONSTITUTION AND PURPOSE

The Tribunal administratif du Québec (le “Tribunal”) is a Government agency established under the Act respecting administrative justice (R.S.Q., C. J-3), and is mandated, in those cases provided for in the Act, to rule on recourses against an administrative authority or a decentralized authority. Under the Income Tax Act (Canada) and the Taxation Act (Québec), the Tribunal is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in keeping with the accounting principles that are generally recognized in Canada, requires that management use estimates and assumptions that affect reporting of assets and liabilities, presentation of contingent assets and liabilities on the date of the financial statements, and reporting revenues and expenses over the period covered by the financial statements. The real results may differ from these estimates.

Fixed assets

Fixed assets are recorded at cost and amortized over their previous service life on a straight-line basis at the following rates:

Office furniture and equipment	20.00%
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 according to the straight-line method.

System development costs	20%
Software	33.33%

The systems being developed will be amortized when the project is completed and operational.

Depreciation 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. A loss in value exists when the book value exceeds the unactualized future cash flows that this asset will procure. The amount of any loss in value representing the net book value over the fair value is posted to the results for the fiscal year.

Contributions

Contributions regarding the Tribunal’s current operations are reported as proceeds in the fiscal year in which they are received.

Contributions related to fixed assets and intangible assets are deferred and amortized at the same rate as the fixed assets and intangible assets to which they pertain.

Pension plans

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

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**3. OTHER CONTRIBUTIONS**

	2006	2005	2004
Société de l'assurance automobile du Québec	\$8 313 098	\$7 633 594	\$6 989 800
Ministère de l'Emploi et de la Solidarité sociale	8 282 937	8 458 008	8 716 400
Régie des rentes du Québec	1 649 902	1 732 419	2 191 300
Commission de la santé et de la sécurité du travail	29 604	25 040	59 300
Gouvernement du Québec		676 154	
	<u>\$18 275 541</u>	<u>\$18 525 215</u>	<u>\$17 956 800</u>

4. FIXED ASSETS

	2006		
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$657 368	\$536 151	\$121 217
Office automation and computer equipment	2 150 313	1 853 652	296 661
Leasehold improvements			
– major developments	4 035 992	1 523 708	2 512 284
– other	442 502	143 187	299 315
	<u>\$7 286 175</u>	<u>\$4 056 698</u>	<u>\$3 229 477</u>
	2005		
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$585 318	\$467 680	\$117 638
Office automation and computer equipment	2 120 301	1 852 447	267 854
Leasehold improvements			
– major developments	4 035 992	1 254 642	2 781 350
– other	398 232	103 007	295 225
	<u>\$7 139 843</u>	<u>\$3 677 776</u>	<u>\$3 462 067</u>
	2004		
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$548 484	\$391 383	\$157 101
Office automation and computer equipment	2 123 757	1 817 276	306 481
Leasehold improvements			
– major developments	4 035 992	985 575	3 050 417
– other	328 384	70 169	258 215
	<u>\$7 036 617</u>	<u>\$3 264 403</u>	<u>\$3 772 214</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**5. INTANGIBLE ASSETS**

	2006		
	Cost	Accumulated depreciation	Net
Systems development costs	\$2 759 101	\$1 591 679	\$1 167 422
Software	999 068	808 265	190 803
	<u>\$3 758 169</u>	<u>\$2 399 944</u>	<u>\$1 358 225</u>
	2005		
	Cost	Accumulated depreciation	Net
Systems development costs	\$2 451 933	\$1 354 030	\$1 097 903
Software	923 798	660 737	263 061
	<u>\$3 375 731</u>	<u>\$2 014 767</u>	<u>\$1 360 964</u>
	2004		
	Cost	Accumulated depreciation	Net
Systems development costs	\$2 069 464	\$1 071 424	\$998 040
Software	734 530	490 288	244 242
	<u>\$2 803 994</u>	<u>\$1 561 712</u>	<u>\$1 242 282</u>

Systems development costs include systems being developed. These systems, totalling \$520 770 at March 31, 2006 (\$450 690 in 2005 and \$179 169 in 2004), were not amortized during the fiscal year.

6. LONG-TERM DEBT

	2006	2005	2004
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	\$2 971 050	\$3 187 665	\$3 390 149
Less: Instalments due within one year	231 735	216 615	202 484
	<u>\$2 739 315</u>	<u>\$2 971 050</u>	<u>\$3 187 665</u>

The fair value of the long-term debt is approximately \$275 000 higher than its fair value. The fair value was determined using the actualized value of future cash flows using current interest rates for borrowings with similar conditions and terms.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

6. LONG-TERM DEBT (cont'd)

The amounts of payments of principal to be made over the next five fiscal years break down as follows:

2007	\$231 735
2008	247 913
2009	265 225
2010	283 749
2011	303 571

7. FUTURE FRINGE BENEFITS
a) Pension plans

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

The Tribunal's contributions charged to the year-end statement amount to \$938 677 (2005: \$652 170; 2004: \$575 355). The Tribunal's liability towards these Government plans is restricted to its contributions as an employer

Some of the Tribunal's staff members participate in none of the Government pension plans. Instead, they receive a sum equivalent to the employer's contribution for the duration of their contract. The amounts paid in this regard and posted to the results for the fiscal year total \$11 212 (2005: \$19 230; 2004: \$24 647).

b) Provision for transition allocations

The transition allocations are payable to most full-time members apart from those on unpaid leave in the total public service, whose mandate is not renewed or who do not seek renewal of their mandate. According to the regulation on remuneration and Tribunal employees' other working conditions, this allocation corresponds to one month's wages at the time of departure per year of continuous service up to a maximum of twelve months.

	2006	2005	2006
Opening balance	\$5 784 518	\$5 896 786	\$5 477 047
Charge for the year	284 247	242 667	419 739
Decreases due to change in situation	(173 399)	(241 714)	
Benefits paid during the year	(242 721)	(113 221)	
	<u>5 652 645</u>	<u>5 784 518</u>	<u>5 896 786</u>
Less :			
Instalments maturing within one year	<u>404 136</u>	<u>242 721</u>	<u>113 221</u>
Closing balance	<u>\$5 248 509</u>	<u>\$5 541 797</u>	<u>\$5 783 565</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006**7. FUTURE FRINGE BENEFITS (cont'd)****c) Contributions for transition allocations receivable**

Under a Gouvernement du Québec Order-in-Council of 2005, Tribunal contributors must pay \$5 255 700 in transition allocations payable. At March 31, 2006, a receivable was registered and the consideration was reported as proceeds in the results statement. These amounts will be paid at the Tribunal's request.

	2006	2005	2006
Registration of contributions receivable	\$5 255 700		
Decreases due to changes in situation	(173 399)		
Contributions received during fiscal year	(242 721)		
	<u>4 839 580</u>		
Less :			
Contribution maturing within one year	<u>404 136</u>		
Closing balance	<u>\$4 435 444</u>		

d) Provision pour sick leave

	2006	2005	2004
Opening balance	\$2 687 247	\$2 730 373	\$2 771 825
Charge for the year	537 548	400 051	335 155
Benefits paid during the year	(438 946)	(443 177)	(376 607)
	<u>2 785 849</u>	<u>2 687 247</u>	<u>2 730 373</u>
Less:			
Instalments estimated within one year	<u>430 000</u>	<u>430 000</u>	<u>430 000</u>
Closing balance	<u>\$2 355 849</u>	<u>\$2 257 247</u>	<u>\$2 300 373</u>

8. CASH FLOWS

	2006	2005	2004
Change in non-cash elements linked to operations:			
Accounts receivable and accrued interest	\$(356 887)	\$8 672	\$1 686
Prepaid expenses	(14 311)	(93 737)	14 825
Accounts payable and accruals	212 337	255 893	(671 202)
Provision for transition allocations	(131 873)	(112 268)	419 739
Provision for sick leave	98 602	(43 126)	(41 452)
Deferred contributions	<u>650 000</u>	<u>881 000</u>	
	<u>457 868</u>	<u>896 434</u>	<u>(276 404)</u>
Contributions for transition allocations receivable	<u>(4 839 580)</u>		
	<u>\$ (4 381 712)</u>	<u>\$896 434</u>	<u>\$ (276 404)</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2006

9. RELATED PARTY TRANSACTIONS

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

10. COMMITMENTS

Leases

The Tribunal is a party to equipment rental leases. Under these leases, whose expiry dates range from 2007 à 2011, the Tribunal committed to paying \$162 804. The minimum annual rent for the next five fiscal years is as follows:

	<u>2006</u>
2007	\$43 900
2008	34 008
2009	34 008
2010	30 364
2011	<u>20 524</u>
	<u>\$162 804</u>

11. FINANCIAL INSTRUMENTS

Cash on hand bears interest at the base rate minus 2.25% for fiscal years ended March 31, 2006, 2005 and 2004.

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

The fair value of the long-term debt is disclosed in Note 6.

12. COMPARATIVE FIGURES

Certain 2005 and 2004 figures were reclassified for consistency with the presentation adopted in 2006.

TRIBUNAL ADMINISTRATIF DU QUÉBEC**MANAGEMENT REPORT**

The financial statements of the Tribunal administratif du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial information contained in the rest of the annual activity report concurs with the information provided in the financial statements.

To fulfill its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. The Tribunal administratif du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Tribunal's financial statements, in accordance with generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

M^c Jacques Forgues
President

André Dallaire, CMA
Department Head, Financial and
Material Resources

Québec, June 21, 2006

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Tribunal administratif du Québec as at March 31, 2006 and the revenue, accumulated surplus and cash flow statements for the year then ended. These financial statements are the responsibility of Tribunal management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the Tribunal's financial position as at March 31, 2006 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles that are generally accepted in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, these principles were applied on a basis consistent with that of the preceding years.

Renaud Lachance, CA
Auditor General of Québec

Québec, June 21, 2006