

**FONDS DE SOLIDARITÉ DES TRAVAILLEURS
DU QUÉBEC (F.T.Q.)**

FINANCIAL STATEMENTS

As at May 31, 2007 and 2006

Auditors' Report

To the Shareholders of the
Fonds de solidarité des travailleurs du Québec (F.T.Q.)

We have audited the balance sheets of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) as at May 31, 2007 and 2006, and the statements of earnings, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at May 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Samson Bélaire/Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants



Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montréal, June 21, 2007

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)
Balance Sheets
As at May 31
(In thousands, except net value per share)

	2007	2006
	\$	(Restated – Note 3b) \$
Assets		
Investments (Note 4)	3,056,834	2,693,705
Other investments (Note 5)	4,476,784	4,175,267
Accounts receivable and other assets	360,895	160,342
Cash	9,408	6,081
Capital assets (Note 7)	65,282	68,798
Future income taxes (Note 12)	720	9,345
	7,969,923	7,113,538
Liabilities		
Loans (Note 8)	361,423	325,907
Accounts payable	347,546	158,002
Income taxes	21,166	22,547
Future income taxes (Note 12)	740	-
	730,875	506,456
Net assets	7,239,048	6,607,082
Number of outstanding Class A shares	284,628	277,466
Net value per Class A share	25.36	23.74

Contingencies (Note 10)

The accompanying notes form an integral part of these financial statements.

On behalf of the Board of Directors,



Yvon Bolduc, Director



Henri Massé, Director

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Statements of Earnings

For the years ended May 31

(In thousands, except earnings per share)

	2007	2006
		(Restated – Note 3b)
	\$	\$
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Revenues		
Realized revenues		
Interest (Note 11)	197,800	189,121
Dividends	49,706	42,190
Gain on investments and other investments	171,922	11,153
Change in unrealized appreciation or depreciation	169,445	220,878
	<hr/>	<hr/>
	588,873	463,342
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Operating expenses (Note 11)		
Corporate expenses	30,579	26,793
Investment and other investment expenses	27,238	26,802
Shareholder development and administration and economic training expenses	30,919	29,106
Capital tax	4,096	4,782
Amortization of information systems development and other capital assets	6,046	6,968
	<hr/>	<hr/>
	98,878	94,451
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Earnings before income taxes	489,995	368,891
Income taxes (Note 12)	14,950	2,436
	<hr/>	<hr/>
Net earnings	475,045	366,455
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Weighted average number of Class A shares	282,335	271,462
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Earnings per Class A share	1.68	1.35

The accompanying notes form an integral part of these financial statements.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)
Statements of Changes in Net Assets
For the years ended May 31
(In thousands)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)			Net Assets
	(Note 9)	(Note 9)	Realized	Unrealized	Total	
	\$	\$	\$	\$	\$	\$
2007						
Balance at beginning of year, as reported	6,065,763	368,883	104,091	68,345	172,436	6,607,082
Change in accounting policy (Note 3a)				(11,483)	(11,483)	(11,483)
Change in accounting policy (Note 3b)			12,093	(12,093)	-	-
Balance at beginning of year, as restated	6,065,763	368,883	116,184	44,769	160,953	6,595,599
Share issues	570,695					570,695
Net change in share subscriptions	43					43
Realized net earnings			305,600		305,600	305,600
Change in unrealized appreciation or depreciation				169,445	169,445	169,445
Share redemptions	(366,360)		(35,974)		(35,974)	(402,334)
Transfers (Note 9)	100,000		(100,000)		(100,000)	-
Balance at end of year	6,370,141	368,883	285,810	214,214	500,024	7,239,048
2006						
Balance at beginning of year, as reported	5,681,841	368,883	60,475	(155,996)	(95,521)	5,955,203
Change in accounting policy (Note 3b)			8,630	(8,630)	-	-
Balance at beginning of year, as restated	5,681,841	368,883	69,105	(164,626)	(95,521)	5,955,203
Share issues	613,805					613,805
Share subscriptions	346					346
Realized net earnings			145,577		145,577	145,577
Change in unrealized appreciation or depreciation				220,878	220,878	220,878
Share redemptions	(310,229)		(18,498)		(18,498)	(328,727)
Transfers (Note 9)	80,000		(80,000)		(80,000)	-
Balance at end of year	6,065,763	368,883	116,184	56,252	172,436	6,607,082

The accompanying notes form an integral part of these financial statements.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)
Statements of Cash Flows
For the years ended May 31
(In thousands)

	2007	2006 (Restated – Note 3b)
	\$	\$
Operating activities		
Cash inflows – investment and other income	260,330	219,457
Cash outflows – suppliers and compensation	(83,668)	(87,246)
Income taxes received (paid)	(12,768)	20,057
	163,894	152,268
Financing activities		
Loans	119,083	111,363
Loans repaid	(99,174)	(120,362)
Shares issued and subscribed	570,738	614,151
Shares redeemed	(400,033)	(324,437)
	190,614	280,715
Cash flows from operating and financing activities	354,508	432,983
Investing activities		
Acquisition of investments	(976,317)	(908,077)
Proceeds on disposal of investments	790,218	623,258
Acquisition of other investments	(8,752,352)	(7,816,027)
Proceeds on disposal of other investments	8,589,800	7,668,033
Information systems development	(1,126)	(2,218)
Other capital assets	(1,404)	(2,000)
Cash flows used in investing activities	(351,181)	(437,031)
Increase (decrease) in cash	3,327	(4,048)
Cash at beginning of year	6,081	10,129
Cash at end of year	9,408	6,081

The accompanying notes form an integral part of these financial statements.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

1. Incorporation Act

Statutes and Objectives of the Fund

The Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the "Fund"), incorporated by an Act of the Québec National Assembly, is a joint-stock company with the following objectives:

- a) to invest in Québec business enterprises and provide them with services in order to create, maintain or protect jobs;
- b) to invest in business enterprises whose activities outside Québec contribute to creating or maintaining jobs or economic activity in Québec;
- c) to promote the training of workers in economic matters to enable them to increase their influence on Québec's economic development;
- d) to stimulate the Québec economy by making strategic investments that will be of benefit to Québec workers and business enterprises;
- e) to promote the development of Québec business enterprises by inviting workers to participate in that development by purchasing the Fund's shares.

To this end, the Fund endeavours to concentrate most of its investments in unsecured investments, mainly in small and medium-sized enterprises, granting priority to requests from enterprises whose workers are members of unions affiliated with the Québec Federation of Labour ("Q.F.L.") and developing sector-based strategies. As a general rule, the Fund will take a minority interest in the projects in which it invests.

60% Rule

The Fund may invest in any business enterprise with or without security. However, in any given fiscal year, the proportion of unsecured investments made in qualified business enterprises must represent an average of at least 60% of the Fund's average net assets of the previous year.

In 2007, this figure is 55.5% (53.2% in 2006).

Because the Fund did not satisfy the 60% rule as at May 31, 2007 and 2006, it must limit its share issues of the following fiscal year to 75% of the total value of shares issued in the preceding year, except for shares acquired through payroll deduction and employer contributions stipulated in agreements concluded at the end of the preceding period. For the year ending May 31, 2008, the 60% rule limits the Fund's share issues to approximately \$534 million.

2. Significant Accounting Policies

The Fund is an investment company as defined in Accounting Guideline AcG-18, *Investment Companies* and, as such, applies the accounting principles stated therein.

Section 1530 requires companies to present comprehensive income. This financial statement is not provided since net earnings and comprehensive income are the same.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

2. Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions, in particular when determining allowances and the fair value of investments and other investments, that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

Recognition of financial instruments

Financial instruments are recognized on the transaction date, and cost represents historical cost.

Measurement of financial instruments (see Note 3a)

All investments and other investments are measured at fair value, established as follows:

a) Unlisted financial instruments

Unlisted financial instruments consist of shares, partnership units, loans and advances, guarantees and suretyships, bonds and money market securities. These instruments are valued using appropriate valuation techniques, including comparison to arm's-length transactions or takeover bids and the capitalization or discounting of cash flows. Units of funds of hedged funds are valued at the value set by their respective managers at the date closest to the Fund's year-end.

b) Listed financial instruments

Listed financial instruments consist of shares, partnership units and bonds. These instruments are valued at bid price at the close of trading. In exceptional instances, when this price does not adequately reflect the fair value of an instrument, these securities are then valued using appropriate valuation techniques, including the techniques used for unlisted financial instruments.

c) Derivative financial instruments

As part of its investment and other investment activities, the Fund uses a number of derivative financial instruments mainly to hedge its exposure to interest, foreign exchange and market fluctuations. Derivative financial instruments authorized under the overall financial asset management policy are:

- put or call options;
- swap agreements;
- futures contracts.

These derivative financial instruments are valued using appropriate valuation techniques, including option pricing models using in particular the bid price for assets and the ask price for liabilities at the close of trading.

All other financial assets and liabilities are also measured at fair value.

Securities loans

To generate additional income, the Fund carries out securities loan transactions on its portfolio of short-term securities, stocks and bonds. This income is recorded under Fees and other income in Note 11.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

2. Significant Accounting Policies (continued)

Capital assets

Capital assets are stated at cost and are amortized over their estimated useful life using the following methods and annual rates:

	Methods	Rates
Buildings	straight-line	2.5 %
Office furniture and equipment	diminishing balance	20.0 %
Computer hardware and software	straight-line	25.0 %
Information systems development	straight-line	33.3 %

Capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recorded when their carrying amount exceeds the undiscounted cash flows that would result from their use and eventual disposition. The recognized impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Revenue recognition

Dividends

Dividends are recorded as income when they are declared, except for cumulative dividends which are recorded on an accrual basis.

Gains and losses on investments and other investments

Gains and losses on disposals of investments and other investments, including derivative financial instruments, are recorded at the time of sale and included in Gain on investments and other investments. The amount is the difference between the proceeds from the sale and the average cost, without considering the unrealized appreciation or depreciation recorded in prior years, which is reversed and taken into account under Change in unrealized appreciation or depreciation.

Income taxes

The Fund uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amounts of balance sheet items and their tax bases, using the enacted or substantively enacted income tax rates for the years in which the differences are expected to reverse.

Foreign currency translation

Monetary assets and liabilities and assets and liabilities measured at fair value are translated into Canadian dollars at the year-end exchange rate. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. Foreign exchange gains and losses are recognized in the Statement of Earnings.

Employee future benefits

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected return on plan assets, salary escalation and retirement ages of employees.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

2. Significant Accounting Policies (continued)

Employee future benefits (continued)

For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.

Net actuarial gains or losses which are greater than 10% of the accrued benefit obligation or the fair value of the plan assets, whichever is higher, are amortized over the average remaining service period of active employees. The average remaining service period of covered active employees is between 10 and 14.5 years for 2007 and 2006.

The transitional obligation of the individual insurance plan is amortized using the straight-line method over the average remaining service period of active employees.

3. Changes in Accounting Policies

a) Financial instruments

On June 1, 2006, the Fund early adopted and retroactively applied, without restatement of prior period financial statements, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. Since the Fund is an investment company, the changes in accounting policies arising from the application of this section apply only to some items.

Under Section 3855, listed financial instruments and derivative instruments, if any, are measured at fair value, as defined by the bid price for assets and the ask price for liabilities at the close of trading. Prior to the introduction of this standard, these instruments were measured based on their closing price. As at June 1, 2006, the impact of this change was a reduction of \$5.8 million in Investments and \$5.7 million in Other investments.

These adjustments, totalling \$11.5 million, were recorded as an adjustment to the opening balance of Unrealized Retained Earnings.

This change had no material impact on net earnings and earnings per share for the year, nor on net value per share as at May 31, 2007.

b) Investment companies

The Fund early adopted the amendment of AcG-18, *Investment Companies*, published in March 2007. This amendment changes the criteria for identifying interests in investment companies that must be consolidated. As a result of this amendment, the Fund's interests in investment companies are measured and presented at fair value and are no longer consolidated.

The comparative figures for the year ended May 31, 2006 were restated for consistency purposes. The restatement had the following impact: Investments increased by \$263 million, Loans increased by \$255 million, and Non-controlling interests of \$11 million were eliminated. Other assets and liabilities decreased by a net amount of \$19 million. Revenues and expenses, including non-controlling interests, each decreased by \$14.5 million.

As at June 1, 2005 and 2006, the restatement resulted in the reclassification of \$8.6 million and \$12.1 million, respectively, from unrealized retained earnings to realized retained earnings.

This change had no impact on net earnings and earnings per share for the years ended May 31, 2007 and 2006, nor on net value per share as at May 31, 2007 and 2006.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

4. Investments

(In thousands)	2007		2006 (Restated – Note 3b)	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Unsecured				
Listed shares and units	614,715	847,426	589,076	806,965
Unlisted shares and units	1,457,019	1,413,497	1,497,330	1,262,492
Loans and advances	826,251	776,137	647,889	601,314
Secured				
Loans and advances	26,641	13,624	33,027	13,551
	2,924,626	3,050,684	2,767,322	2,684,322
Derivative financial instruments	-	6,150	-	9,383
	2,924,626	3,056,834	2,767,322	2,693,705

Investments include securities denominated in foreign currencies, mainly the U.S. dollar, with a fair value of \$209.8 million (\$160.2 million in 2006).

Investment agreements may include clauses providing for conversion and redemption options.

Interest rate risk

Maturity (In thousands)	Loans and Advances at Fair Value				Total \$
	Variable rates \$	Fixed Rates			
		Less than 1 year \$	1 to 5 years \$	5 years and more \$	
2007					
Unsecured	1,281	260,003	132,073	382,780	776,137
Average effective rate	6.3%	1.8%	9.5%	9.0%	
Secured	2,252	5,850	4,827	695	13,624
Average effective rate	7.9%	10.9%	11.2%	8.0%	
2006 (Restated – Note 3b)					
Unsecured	1,479	226,388	169,708	203,739	601,314
Average effective rate	4.0%	1.8%	8.6%	8.1%	
Secured	2,245	4,760	4,547	1,999	13,551
Average effective rate	7.7%	14.0%	10.6%	10.1%	

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

4. Investments (continued)

Derivative financial instruments

Maturity (In thousands)	Less than 6 months \$	6 months and more \$	Total \$
2007			
Fair value ¹			
Stock option contracts			
Written call options	(8,084)	(10,160)	(18,244)
Purchased put options	36	1,344	1,380
Written put options	(6)	(347)	(353)
Bond futures	4,770		4,770
	(3,284)	(9,163)	(12,447)
Notional amount			
Stock option contracts			
Written call options	33,939	58,633	92,572
Purchased put options	30,733	53,080	83,813
Written put options	25,575	43,260	68,835
Bond futures	100,000		100,000
2006 (Restated – Note 3b)			
Fair value ¹			
Stock option contracts			
Written call options	(472)	(2,020)	(2,492)
Purchased put options	462	3,497	3,959
Written put options	1,068	(1,305)	(237)
Bond option contracts			
Written call options	(894)		(894)
Purchased put options	3,815		3,815
Written put options	(381)		(381)
	3,598	172	3,770
Notional amount			
Stock option contracts			
Written call options	23,953	21,131	45,084
Purchased put options	19,911	17,912	37,823
Written put options	20,646	13,750	34,396
Bond option contracts			
Written call options	100,000		100,000
Purchased put options	100,000		100,000
Written put options	100,000		100,000

1. The net fair value of derivative financial instruments is \$-12.4 million (\$3.8 million in 2006). The fair value of instruments with positive values is \$6.2 million (\$9.4 million in 2006) and is included in Investments, whereas the fair value of those with negative values is \$18.6 million (\$5.6 million in 2006) and is included in Accounts payable.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

4. Investments (continued)

Breakdown of investments by industry segment and maximum risk

	Industry Segment				Total \$
	Technology \$	Manufacturing and primary \$	Services and tourism \$	Regional or local and real estate funds \$	
(In thousands)					
2007					
Investments at cost	803,456	576,375	925,301	619,494	2,924,626
Unrealized appreciation (depreciation)	(208,623)	(49,230)	310,350	79,711	132,208
Fair value	594,833	527,145	1,235,651	699,205	3,056,834
Allocation of investments made by the regional or local funds	8,062	56,728	36,667	(101,457)	-
Funds committed but not disbursed ¹	257,440	144,819	197,743	56,427	656,429
Guarantees and suretyships ²		5,673	1,500	21,500	28,673
Maximum risk	860,335	734,365	1,471,561	675,675	3,741,936
 2006 (Restated – Note 3b)					
Investments at cost	736,903	535,494	904,251	590,674	2,767,322
Unrealized appreciation (depreciation)	(110,727)	(190,496)	162,949	64,657	(73,617)
Fair value	626,176	344,998	1,067,200	655,331	2,693,705
Allocation of investments made by the regional or local funds	9,576	58,413	32,707	(100,696)	-
Funds committed but not disbursed ¹	280,164	103,071	178,635	50,692	612,562
Guarantees and suretyships ²		8,678	300	27,271	36,249
Maximum risk	915,916	515,160	1,278,842	632,598	3,342,516

1. Funds committed but not disbursed represent investments that have already been agreed to and for which amounts have been committed by the Fund but have not been disbursed as at year-end.

2. Under Section 17 of its Incorporation Act, when the Fund makes an investment in the form of a guarantee or a suretyship, it must establish and maintain a reserve equal to at least 50% of the guarantee or suretyship amount for the term thereof. This reserve has been established from Other investments.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

4. Investments (continued)

The Fund granted guarantees and suretyships that do not generally include a specific maturity and that are irrevocable commitments by the Fund to make the payments of partner companies that cannot meet their obligations to third parties for an undiscounted total maximum amount and for the following purposes:

(In thousands)	2007 \$	2006 (Restated – Note 3b) \$
Loans on real estate projects	21,500	27,271
Operating activities and operating lines of credit – without recourse	7,173	8,978
Maximum amount	28,673	36,249

As at May 31, 2007, there was no unrealized depreciation related to guarantees and suretyships (\$3.6 million in 2006, included in Accounts payable).

As well, in the normal course of business, the Fund enters into various indemnification agreements, usually related to transfers of investments for the representations and warranties made as well as to the liability of the Fund's directors, officers or representatives toward partner companies. The latter liability is covered by liability insurance. Due to the nature of these agreements, it is impossible to reasonably estimate the maximum amount that the Fund may have to pay to counterparties. In management's opinion, it is highly unlikely that these commitments will result in material additional expenses, taking into consideration the provisions recorded.

5. Other investments

(In thousands)	2007		2006 (Restated – Note 3b)	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Shares and units	1,048,467	1,219,156	841,786	992,843
Units of funds of hedge funds	93,917	102,411	98,117	98,861
Bonds	3,114,550	3,100,648	2,695,239	2,691,967
Money market securities	7,810	7,829	359,720	359,760
	4,264,744	4,430,044	3,994,862	4,143,431
Derivative financial instruments	(984)	46,740	(3,174)	31,836
	4,263,760	4,476,784	3,991,688	4,175,267

Other investments include securities denominated in foreign currencies, mainly the U.S. dollar, with a fair value of \$636.3 million (\$211.3 million in 2006).

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

5. Other investments (continued)

Breakdown by maturity

Bonds

Maturity (In thousands)	Less than 1 year \$	1 to 5 years \$	5 to 10 years \$	10 to 20 years \$	20 to 30 years \$	30 years and more \$	Total \$
2007							
Fair value	560,520	1,124,392	764,701	206,795	384,842	59,398	3,100,648
Cost	567,155	1,139,283	776,162	204,421	369,011	58,518	3,114,550
Par value	558,245	1,113,804	754,042	190,256	338,558	54,118	3,009,023
Average effective rate	4.3%	4.5%	4.8%	5.3%	5.6%	5.1%	4.8%
Average nominal rate	5.7%	5.1%	5.1%	6.0%	6.2%	5.6%	5.4%
2006							
Fair value	248,749	1,135,932	686,513	260,022	327,693	33,058	2,691,967
Cost	249,612	1,149,552	698,512	256,343	308,358	32,862	2,695,239
Par value	248,264	1,115,216	646,249	202,727	287,225	29,768	2,529,449
Average effective rate	2.8%	4.2%	4.9%	5.4%	5.9%	5.3%	4.6%
Average nominal rate	3.5%	5.0%	5.9%	8.0%	6.4%	6.0%	5.5%

Money market securities

Maturity (In thousands)	Less than 1 month \$	1 to 6 months \$	6 months and more \$	Total \$
2007				
Fair value	3,437	3,474	918	7,829
Average effective rate	4.2%	3.9%	4.2%	4.1%
2006 (Restated – Note 3b)				
Fair value	334,993	23,799	968	359,760
Average effective rate	4.1%	4.3%	4.1%	4.1%

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

5. Other investments (continued)

Breakdown by maturity (continued)

Derivative financial instruments

Maturity (In thousands)	Less than 1 month \$	1 to 6 months \$	6 months and more \$	Total \$
2007				
Fair value ¹				
Bond option contracts				
Written call options		-	(13)	(13)
Bond futures		1,321	35,498	36,819
Stock index option contracts				
Written call options		(6,017)	(2,544)	(8,561)
Purchased put options		815	443	1,258
Written put options		(359)	(149)	(508)
Stock index futures		-	(377)	(377)
Foreign exchange contracts	2,899	101		3,000
	2,899	(4,516)	33,235	31,618
Notional amount				
Bond option contracts				
Written call options		15,000	150,000	165,000
Bond futures		485,735	945,000	1,430,735
Stock index option contracts				
Written call options		55,500	27,750	83,250
Purchased put options		48,125	24,375	72,500
Written put options		42,500	21,250	63,750
Stock index futures	40,627	25,000		65,627
Foreign exchange contracts	79,601	563,010		642,611
2006				
Fair value ¹				
Bond option contracts				
Written call options		(413)	(1,751)	(2,164)
Purchased put options		2,708	6,347	9,055
Written put options		(935)	(2,139)	(3,074)
Bond futures	(94)	1,063	9,325	10,294
Stock index futures		1,409		1,409
Stock index option contracts				
Written call options	2,351			2,351
Purchased put options	(3,085)			(3,085)
Written put options	1,417			1,417
Foreign exchange contracts	2,662	(18)		2,644
	3,251	3,814	11,782	18,847
Notional amount				
Bond option contracts				
Written call options		100,000	1,030,000	1,130,000
Purchased put options		100,000	200,000	300,000
Written put options		200,000	600,000	800,000
Bond futures	503,041	100,000	1,150,000	1,753,041
Stock index futures		25,000		25,000
Stock index option contracts				
Written call options	75,000			75,000
Purchased put options	75,000			75,000
Written put options	75,000			75,000
Foreign exchange contracts	426,806	149,204		576,010

1. The net value of derivative financial instruments is \$31.6 million (\$18.8 million in 2006). The fair value of instruments with positive values is \$46.7 million (\$31.8 million in 2006) and is presented under Other investments, whereas those with negative values is \$15.1 million (\$13 million in 2006) and is included in Accounts payable.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

5. Other investments (continued)

Derivative financial instruments (continued)

The notional amount represents the determined theoretical value of the underlying principal of a derivative, set only to serve as a reference for the application of an exchange rate, interest rate, stock market price or market index value. The notional amount does not reflect the credit or market risk inherent to the contracts. Credit risk stems from the possibility that the other party involved in the transaction will not honour its commitments. The Fund reduces this risk by dealing only with institutions that have a solid credit rating, such as defined in the overall financial asset management policy approved by the Fund's Board of Directors. Market risk relates to potential losses resulting from interest rate, foreign exchange and stock market fluctuations. The Fund manages that risk by using derivative financial instruments only in order to preserve the value of assets, to facilitate changes in asset allocation, to manage a portion of its portfolio through indexing, to facilitate portfolio management and to enhance its yield within the allowed risk limits.

Breakdown of fair value by industry segment

(In thousands)	Shares and Units \$	Bonds \$	Money market securities \$	Total \$
2007				
Government and government agencies		1,550,226	2,807	1,553,033
Financial institutions	38,640	1,031,616	4,913	1,075,169
Technology	110,773	52,246		163,019
Manufacturing and primary	781,286	201,523		982,809
Services and tourism	390,868	265,037	109	656,014
	1,321,567	3,100,648	7,829	4,430,044
2006 (Restated – Note 3b)				
Government and government agencies		1,621,553	3,909	1,625,462
Financial institutions		539,611	355,751	895,362
Technology	216	68,566		68,782
Manufacturing and primary	776,967	192,948		969,915
Services and tourism	314,521	269,289	100	583,910
	1,091,704	2,691,967	359,760	4,143,431

1. This breakdown does not take into account changes in asset breakdown resulting from derivative financial instruments.

6. Securities loans

In the normal course of business, the Fund engages in securities lending in order to generate additional revenue. These loans are secured by guarantees or assets equivalent to the minimum percentage prescribed by law or to a percentage that may vary according to best practices. As at May 31, 2007, this percentage was between 102% and 115%, (between 102% and 105% in 2006) and the fair value of the securities loaned was \$379 million (\$536 million in 2006).

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

7. Capital assets

(In thousands)	Cost \$	Accumulated amortization \$	Net book value \$
2007			
Buildings	66,767	8,416	58,351
Office furniture and equipment	16,213	12,918	3,295
Computer hardware and software	7,361	4,832	2,529
Information systems development	17,307	16,200	1,107
	107,648	42,366	65,282
2006 (Restated – Note 3b)			
Buildings	66,767	6,609	60,158
Office furniture and equipment	15,844	11,462	4,382
Computer hardware and software	7,178	4,623	2,555
Information systems development	16,181	14,478	1,703
	105,970	37,172	68,798

The net book value of the portion of building held for rental amounts to \$26.4 million (\$27.1 million in 2006).

8. Loans

Interest on loans is determined based on the rate of return of Other investments. These loans are renewable monthly and repayable on demand. Consequently, the fair value of these loans from the specialty and regional funds corresponds to their book value. As at May 31, 2007, the interest rate was 4.75% (4.5% in 2006.)

In addition, the Fund has credit facilities amounting to \$40.0 million (\$40.0 million in 2006 (Note 3b)), bearing interest at prime and renewable annually. As at May 31, 2007 and 2006 these facilities had not been used.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

9. Net Assets

Share capital

Authorized

Class A shares

Unlimited number of Class A shares to be issued in Series 1 and 2, without par value, voting, redeemable and non-transferable unless approved by a resolution of the Board of Directors.

Class A shares, Series 1 and 2, can be exchanged for shares of another series and rank *pari passu*. However, Class A shares, Series 1 may be issued only to an individual requesting their transfer to a trustee under a registered retirement savings plan.

Class G shares

Unlimited number of Class G shares, without par value, non-voting, without dividends, non-transferable and non-redeemable. In the event of a deficit, Class G shareholders must assume in priority the deficit up to the amount of the consideration paid for such shares and, in the event of a dissolution, liquidation or distribution of the Fund's asset in whole or in part, these shares grant their holders the right to be reimbursed after all Class A shareholders have been reimbursed.

Class B shares

Unlimited number of Class B shares, without par value, non-voting, non-participating, entitled to a preferential dividend at the rate determined by the Board of Directors. In the event of liquidation, the Class B shares rank prior to Class A and G shares.

Subscribed

Subscribed capital is money cashed but for which no Class A share can be issued in consideration thereof pursuant to the Fund's purchase-by-agreement policy. These Class A shares will be issued at the time set out in the policy at the share price in effect at that date.

Redemption terms

Class A shares are generally redeemable only when the shareholder who has purchased them from the Fund reaches the age of 55 and avails himself of his right to an early retirement or retirement, or has reached 65 years of age. The redemption price is determined semi-annually based on the value of the Fund.

Shareholders may also withdraw their initial investment in the Fund within 60 days of the subscription date or the date of the first payroll deduction. This withdrawal, however, cancels the right to the tax credit.

The Fund can redeem Class A shares only in cases provided under the purchase-by-agreement policy voted by the Board of Directors and approved by the Minister of Finance.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

9. Net Assets (continued)

Share capital (continued)

Transfers

At the annual shareholders' meeting held on November 8, 2003, the shareholders ratified Regulation No. 68 allowing directors, by simple resolution, to increase or decrease the amount of issued and paid-up capital on outstanding Class A shares, Series 1 and to use any contributed surplus to eliminate or reduce the deficit.

During the year, the Board of Directors approved resolutions to increase the issued and paid-up capital on Class A shares, Series 1 by \$100 million (\$80 million in 2006) through transfers from retained earnings.

As at May 31, 2007, the Fund had transferred an aggregate of \$1,124 million from retained earnings to share capital.

Issued, paid-up and subscribed capital

	Share Capital						
	Issued				Class G Number and \$	Subscribed	Total
	Class A		Class G			Class A	
	Series 1	Series 2	Number		and \$	\$	\$
Number	\$	Number	\$				
(In thousands)							
2007							
Balance at beginning of year	273,754	5,968,803	3,712	76,489	20,125	346	6,065,763
Share issues ¹	23,471	561,092	405	9,603			570,695
Net change in share subscriptions						43	43
Share redemptions	(16,293)	(357,594)	(421)	(8,766)			(366,360)
Transfers		100,000					100,000
Balance at end of year	280,932	6,272,301	3,696	77,326	20,125	389	6,370,141
2006							
Balance at beginning of year	261,271	5,589,051	3,574	72,665	20,125		5,681,841
Share issues ¹	26,559	602,744	491	11,061			613,805
Share subscriptions						346	346
Share redemptions	(14,076)	(302,992)	(353)	(7,237)			(310,229)
Transfers		80,000					80,000
Balance at end of year	273,754	5,968,803	3,712	76,489	20,125	346	6,065,763

¹ Issues include \$561,012,000 (\$605,974,000 in 2006) in shares qualifying for tax credits, thus respecting the limit imposed by the 60% Rule, and \$9,683,000 (\$7,831,000 in 2006) in shares issued mainly to replace shares redeemed under the Home Buyers' Plan (HBP).

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

9. Net Assets (continued)

Contributed surplus

Contributed surplus results from a reduction in issued and paid-up capital and the excess of the average value of share capital over the redemption price.

10. Contingencies

In the normal course of business, the Fund is party to claims and litigations. The Fund records provisions for such contingencies when necessary. Management believes that the potential liability, net of the provisions recorded, would not have a material adverse effect on the Fund's financial position.

11. Operating expenses

(In thousands)	2007 \$	2006 (Restated – Note 3b) \$
Salaries and benefits	58,784	57,041
Occupancy expenses and rent	11,027	8,608
Advertising and information	9,278	8,558
Professional fees	8,906	6,468
Management fees	5,427	5,219
Travel and entertainment	2,805	2,393
Stationery and office supplies	2,425	2,262
Fees and other income	(6,588)	(4,484)
Rental income	(3,328)	(3,364)
Capital tax	4,096	4,782
Amortization of information systems development	1,722	2,584
Amortization of other capital assets	4,324	4,384
	98,878	94,451

Interest on loans amounting to \$15.6 million (\$15.0 million in 2006 (Note 3b)) is recorded against interest revenue and capitalized to loans.

12. Income taxes

Income taxes are as follows:

(In thousands)	2007 \$	2006 \$
Current	5,585	9,373
Future	9,365	(6,937)
	14,950	2,436

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

12. Income taxes (continued)

The above income taxes are different from the amounts that would be obtained by applying the combined basic tax rate (federal and provincial) to earnings before income taxes. The difference is explained as follows:

(In thousands)	2007	2006 (Restated – Note 3b)
	\$	\$
Income taxes based on combined income tax rate of 45.7% (45.1% in 2006)	223,928	166,370
Non-taxable dividends	(11,949)	(13,315)
Capital gain or loss and change in unrealized appreciation or depreciation		
Additional provincial income taxes	18,394	16,991
Rate difference and non-deductible (non-taxable) portion	(95,531)	(89,623)
Refundable federal tax	(44,512)	(43,795)
Provincial tax deduction	(26,220)	(21,427)
Refundable dividend tax on hand	(48,715)	(17,177)
Large corporations tax	(1,519)	3,000
Other items	1,074	1,412
	14,950	2,436

Sources of future income tax assets are as follows:

(In thousands)	2007	2006
	\$	\$
Capital assets	557	180
Investments and other	163	9,165
	720	9,345

Sources of future income tax liabilities are as follows:

(In thousands)	2007	2006
	\$	\$
Capital assets	397	-
Investments and other	343	-
	740	-

At the federal level, the Fund is taxed according to the rules for mutual fund corporations. Income tax paid on capital gains is recoverable following share redemptions or an increase in paid-up capital when a portion of retained earnings is transferred to issued and paid-up capital. The balance of this tax paid on capital gains amounting to \$16.9 million (\$7.4 million in 2006) is included in Accounts receivable and other assets.

As a private company, the Fund is eligible for the refundable dividend tax on hand (RDTOH). The RDTOH is recoverable by the Fund through the increase in paid-up capital from transfers of a portion of retained earnings to issued and paid-up capital. Of the tax amount of \$33.6 million (\$30.3 million in 2006), \$33.3 million (\$26.7 million in 2006) was applied to reduce the income taxes following transfers approved by the Board of Directors during the year to recover this tax. The balance is included in Accounts receivable and other assets.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

13. Employee future benefits

On January 1, 2001, the Fund implemented funded and unfunded defined benefit pension plans, which guarantee pension benefits to most of its employees. Pension benefits under these plans are based on years of service and average annual salary, which represents the average annual salary over the period of 36 months of consecutive service which results in the highest average.

Also, since July 1, 2003, the Fund has had an optional personal insurance plan for retired employees.

The accrued benefit obligation of these plans as determined by independent actuaries and the fair value of the plan assets are as at March 31, 2007. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2007 and the next valuation will take place as of January 1, 2010.

Information about the plans is as follows:

	2007		2006	
	Plans			
	Pension	Insurance	Pension	Insurance
(In thousands)	\$	\$	\$	\$
Accrued benefit obligation				
Balance at beginning of year	46,176	1,741	34,049	1,361
Current service cost	8,441	135	10,513	119
Interest cost	2,769	98	2,190	85
Benefits paid	(1,233)	(6)	(1,407)	(4)
Past service cost (gain)		(1,049)	23	
Actuarial loss	4,527	362	808	180
Balance at end of year	60,680	1,281	46,176	1,741
Plan assets				
Balance at beginning of year	37,920		26,522	
Employer contributions	3,788	6	3,097	4
Employee contributions	3,221		5,855	
Benefits paid	(1,233)	(6)	(1,407)	(4)
Actual return on plan assets	3,978		3,853	
Balance at end of year	47,674	-	37,920	-
Reconciliation of accrued benefit obligation and plan assets				
Funded status – deficit	(13,006)	(1,281)	(8,256)	(1,741)
Unamortized transitional obligation				784
Unamortized net actuarial loss	6,637	572	3,485	213
Unamortized past service cost (gain)	61	(336)	67	
Accrued benefit liabilities	(6,308)	(1,045)	(4,704)	(744)

These accrued benefit liabilities are included in Accounts payable.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

13. Employee future benefits (continued)

Additional information about the plan assets

Funded plan assets are held in trust and their breakdown is as follows:

	2007 %	2006 %
Equity mutual funds	59.6	59.5
Bond mutual funds	39.8	39.9
Cash and other	0.6	0.6
	100.0	100.0

Pension plan expense for the year is as follows:

	2007		2006	
	Plans			
(In thousands)	Pension \$	Insurance \$	Pension \$	Insurance \$
Current service cost net of employee contributions	5,220	135	4,658	119
Interest cost	2,769	98	2,190	85
Actual return on plan assets	(3,978)		(3,853)	
Past service cost (gain)		(1,049)	23	
Actuarial loss	4,527	362	808	180
Cost before adjustments to recognize the long-term nature of employee future benefits	8,538	(454)	3,826	384
Difference between actual and expected return on plan assets	1,360	0	1,867	
Difference between actuarial loss recognized and actual actuarial loss on accrued benefit obligation	(4,512)	(359)	(759)	(180)
Difference between amortization of past service cost or gain and actual plan amendments	6	1,049	(17)	
Amortization of transitional obligation		71		71
Pension plan expense recognized	5,392	307	4,917	275

Cash payments for employee future benefits, which comprise contributions made by the Fund to these funded pension plans and amounts paid directly to members under unfunded pension plans totalled \$3.8 million (\$3.1 million in 2006).

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

13. Employee future benefits (continued)

Significant actuarial assumptions

The significant actuarial assumptions used to determine the accrued benefit obligation and the benefit plan expense are as follows:

	2007		2006	
	Plans			
	Pension %	Insurance %	Pension %	Insurance %
Accrued benefit obligation				
<i>Rate at end of year</i>				
Discount rate	5.0	5.0	5.2	5.2
Rate of compensation increase	3.5		3.5	
Accrued benefit costs				
<i>Rate at end of previous year</i>				
Discount rate	5.2	5.2	5.7 and 5.2	5.7
Expected rate of return on plan assets	6.5		6.5	
Rate of compensation increase	3.5		3.5	

As at May 31, 2007, the Fund set a maximum annual insurance premium it will assume per retiree. This amount will not be increased in the future.

14. Related Party Transactions

In the normal course of business, the Fund conducts transactions with related companies that are either controlled by the Fund or subject to significant influence by the Fund. Many of the investments that the Fund makes in enterprises are of such an amount and nature that the investee is considered a related entity. These transactions consist predominantly of interest and dividend revenues on investments and certain operating expenses, mainly premiums paid under insurance plans.

The Fund, of which a majority of directors are elected by the QFL, paid \$1.3 million to the QFL in each year for the years ended May 31, 2007 and 2006 under a protocol and agreements that call for compensation to be paid for services rendered in respect of economic training, social audits, shareholder development, and support and guidance of certain entities. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Fund incorporated the Fondation de la formation économique du Fonds de solidarité des travailleurs du Québec (F.T.Q.) (The "Fondation") under Part III of the *Québec Companies Act* and elects the members of the Fondation's Board of Directors. The Fund granted a loan of \$5 million to the Fondation at a variable, contingent interest rate, with a fair value of \$3.5 million (\$3.4 million in 2006).

The Fund granted non-interest bearing loans of \$20 million with a fair value of \$17.9 million (\$17 million in 2006) to the Fonds étudiants solidarité travail du Québec (FESTQ), considered related entities because the Fund elects some of the officers together with the Government of Québec.

The loans are presented in the Balance Sheet under Accounts receivable and other assets.

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

Notes to Financial Statements

As at May 31, 2007 and 2006

15. Additional information

The Schedule of investments at cost and the List of investments at cost made by the specialty funds are available at the Fund's head office, on its Web site at www.fondsftq.com and on SEDAR at www.sedar.com.