

Financial Statements

AS AT MAY 31, 2008 AND 2007

Financial Statements

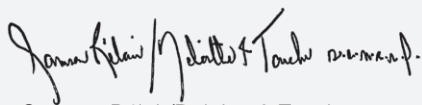
Auditors' Report

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, 2008 and 2007, 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



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



Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montréal, June 18, 2008

Balance Sheets

AS AT MAY 31

(In thousands, except net value per share)	2008 \$	2007 \$
Assets		
Investments (Note 5)	3,309,777	3,056,834
Other investments (Note 6)	4,290,391	4,476,784
Accounts receivable and other assets	259,618	360,895
Cash	6,673	9,408
Capital assets (Note 8)	61,633	65,282
Future income taxes (Note 15)	-	720
	<u>7,928,092</u>	<u>7,969,923</u>
Liabilities		
Amounts under management (Note 9)	390,685	361,423
Accounts payable	234,773	347,546
Income taxes	14,999	21,166
Future income taxes (Note 15)	2,721	740
	<u>643,178</u>	<u>730,875</u>
Net assets	<u>7,284,914</u>	<u>7,239,048</u>
Number of outstanding Class A shares (Note 11)	<u>290,050</u>	<u>284,628</u>
Net value per Class A share	<u>25.05</u>	<u>25.36</u>

Contingencies (Note 12)

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

On behalf of the Board of Directors,



Yvon Bolduc, Director



Michel Arsenault, Director

Statements of Earnings

FOR THE YEARS ENDED MAY 31

(In thousands, except earnings per share)	2008 \$	2007 \$
Revenues (Note 13)		
Realized revenues		
Interest	205,210	199,468
Dividends	55,779	49,706
Gain on investments and other investments	101,925	171,922
Change in unrealized appreciation or depreciation	(353,171)	169,445
	<u>9,743</u>	<u>590,541</u>
Operating expenses (Note 14)		
Corporate expenses	31,265	30,579
Investment and other investment expenses	31,334	28,906
Shareholder development and administration and economic training expenses	31,343	30,919
Capital tax	4,214	4,096
Amortization of information systems development and other capital assets	5,704	6,046
	<u>103,860</u>	<u>100,546</u>
Earnings (loss) before income taxes	(94,117)	489,995
Income taxes (Note 15)	(4,950)	14,950
Net earnings (loss)	(89,167)	475,045
Weighted average number of Class A shares	289,665	282,335
Earnings (loss) per Class A share	(0.31)	1.68

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

Statements of Changes in Net Assets

FOR THE YEARS ENDED MAY 31

	Share Capital	Contributed Surplus	Retained Earnings			Net Assets
	(Note 11)	(Note 11)	Realized	Unrealized	Total	
	\$	\$	\$	\$	\$	\$
(In thousands)						
2008						
Balance at beginning of year	6,370,141	368,883	285,810	214,214	500,024	7,239,048
Share issues	611,026					611,026
Net change in share subscriptions	(12)					(12)
Realized net earnings			264,004		264,004	264,004
Change in unrealized appreciation or depreciation				(353,171)	(353,171)	(353,171)
Share redemptions	(423,357)		(52,624)		(52,624)	(475,981)
Transfers (Note 11)	128,000		(128,000)		(128,000)	-
Balance at end of year	6,685,798	368,883	369,190	(138,957)	230,233	7,284,914
2007						
Balance at beginning of year	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 11)	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

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

Statements of Cash Flows

FOR THE YEARS ENDED MAY 31

(In thousands)	2008 \$	2007 \$
Operating activities		
Cash inflows – investment and other income	250,094	260,330
Cash outflows – suppliers and compensation	(91,606)	(83,668)
Income taxes paid	(33,660)	(12,768)
	<u>124,828</u>	<u>163,894</u>
Financing activities		
Contribution of amounts under management	103,045	119,083
Withdrawal of amounts under management	(90,392)	(99,174)
Shares issued and subscribed	611,014	570,738
Shares redeemed	(480,765)	(400,033)
	<u>142,902</u>	<u>190,614</u>
Cash flows from operating and financing activities	<u>267,730</u>	<u>354,508</u>
Investing activities		
Acquisition of investments	(1,092,378)	(976,317)
Proceeds on disposal of investments	626,631	790,218
Acquisition of other investments	(12,660,491)	(8,752,352)
Proceeds on disposal of other investments	12,857,828	8,589,800
Information systems development	(1,219)	(1,126)
Other capital assets	(836)	(1,404)
Cash flows used in investing activities	<u>(270,465)</u>	<u>(351,181)</u>
Increase (decrease) in cash	<u>(2,735)</u>	<u>3,327</u>
Cash at beginning of year	<u>9,408</u>	<u>6,081</u>
Cash at end of year	<u>6,673</u>	<u>9,408</u>

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

Notes to Financial Statements

AS AT MAY 31, 2008 AND 2007

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 promote the training of workers in economic matters to enable them to increase their influence on Québec's economic development;
- c) to stimulate the Québec economy by making strategic investments that will be of benefit to Québec workers and business enterprises;
- d) 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 ("SMEs"), located in Québec. 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.

If the Fund fails to reach this percentage, the share issues of the following fiscal year are limited to a prescribed percentage 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 year.

The percentage of average qualified investments to the average net assets of the preceding year is 62.0% as at May 31, 2008 (2007: 55.5%).

On November 9, 2007, the Government of Québec announced measures designed to promote the growth of the Fund by temporarily modifying the application of the 60% rule. These measures include a temporary relaxation with respect to the calculations for the 60% rule.

Since the minimum percentage prescribed by the 60% rule has been reached as at May 31, 2008, the amount of share issues will not be limited for the year 2008-2009. Therefore, the Board of Directors of the Fund has set at a maximum of \$700 million the value of the shares giving rise to labour-sponsored fund tax credits to be issued.

2. Significant Accounting Policies

The Fund is an investment company as defined in the Accounting Guideline on investment companies and, as such, applies the accounting principles stated therein.

A Statement of Comprehensive Income is not provided since net earnings and comprehensive income are the same.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") 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.

2. Significant Accounting Policies (continued)

Measurement of financial instruments

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 instruments. The fair value established is based, for all factors that could have a significant impact on fair value, on reasonable assumptions that would be considered by parties to an arm's length transaction. The main assumptions include those used to determine indicated cash flows and the level of risk associated with them. Units of funds of hedged funds are valued at the value set by their respective manager 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

These 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 lending

To generate additional revenues, the Fund carries out securities lending transactions on its portfolio of short-term securities, stocks and bonds. These revenues are recorded under Realized revenues – Interest in the Statements of Earnings.

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 presented under 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.

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

2. Significant Accounting Policies (continued)

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. Future income tax assets are recognized to the extent that it is more likely than not that they will be realized.

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 managers and 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.

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 9.8 and 14.5 years for 2008 and 2007.

3. Changes in accounting policies

Financial Instruments – Disclosure and Presentation

In accordance with Section 3861 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, *Financial Instruments – Disclosure and Presentation*, Note 18 to the financial statements, Financial instruments, includes a description of the financial risk management policy.

Accounting changes

In accordance with Section 1506 of the CICA Handbook, *Accounting Changes*, Note 4 to the financial statements, Future changes in accounting policies and other regulation, includes a description and the impact of new accounting standards issued but not yet applied given their effective date.

4. Future changes in accounting policies and other regulation

Financial instruments

The CICA issued Sections 3862, *Financial Instruments – Disclosures*, 3863, *Financial Instruments – Presentation*, and 1535, *Capital Disclosures*, which apply to years beginning on or after October 1, 2007. The first two Sections replace Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 places increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 carries forward unchanged the requirements of Section 3861. Section 1535 establishes standards for disclosing information about capital and how it is managed.

These standards, which relate to disclosures, will be applied by the Fund as of June 1, 2008 and will have no impact on its results.

Goodwill and intangible assets

The CICA issued Section 3064, *Goodwill and Intangible Assets*, which will apply to years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. These standards will be applied by the Fund as of June 1, 2009 and will have no impact on its results.

4. Future changes in accounting policies and other regulation (continued)

International Financial Reporting Standards (IFRS)

The Accounting Standards Board of Canada confirmed that Canadian GAAP will be replaced by IFRS for the years beginning on or after January 1, 2011 for publicly accountable enterprises. The Fund is currently assessing the impact of the adoption of IFRS on its financial statements.

Regulation of the Autorité des marchés financiers

The Autorité des marchés financiers issued the *Regulation respecting development capital investment fund continuous disclosure*.

This regulation essentially requires the disclosure of additional items, in particular in the Balance Sheet, the Statement of Earnings and the Notes to the financial statements.

In addition, the Fund will have to disclose more information about its derivative financial instruments and issue a detailed schedule of the other investment portfolio. The regulation also clarifies the investment valuation process and specifies the contents of the Management Discussion and Analysis and the Annual Information Form.

The Fund will apply these new requirements to its financial statements as at May 31, 2009.

5. Investments

(In thousands)	2008		2007	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Unsecured				
Listed shares and units	721,706	716,914	614,715	847,426
Unlisted shares and units	1,549,928	1,544,130	1,457,019	1,413,497
Loans and advances	1,119,361	1,021,253	826,251	776,137
Secured				
Loans and advances	31,921	24,635	26,641	13,624
	3,422,916	3,306,932	2,924,626	3,050,684
Derivative financial instruments	-	2,845	-	6,150
	3,422,916	3,309,777	2,924,626	3,056,834

Investments include securities denominated in foreign currencies, mainly the U.S. dollar, with a fair value of \$169.7 million (2007: \$209.8 million).

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

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

5. Investments (continued)

Interest rate risk

Maturity (In thousands)	Loans and Advances at Fair Value				
	Variable rates	Fixed rates			Total
		Less than 1 year	1 to 5 years	5 years and more	
	\$	\$	\$	\$	\$
2008					
Unsecured	48,554	262,097	205,565	505,037	1,021,253
Average effective rate	9.2%	1.1%	10.5%	7.5%	
Secured	1,513	12,462	6,910	3,750	24,635
Average effective rate	6.8%	13.6%	11.2%	10.8%	
2007					
Unsecured	17,491	260,003	132,073	366,570	776,137
Average effective rate	10.4%	1.8%	9.5%	8.9%	
Secured	2,252	6,545	4,827		13,624
Average effective rate	7.9%	10.7%	11.2%		

1. This average rate includes non-interest bearing advances repayable on demand of \$256.3 million (2007: \$227.4 million) to a wholly-owned company. Excluding these advances, the average effective rate would be 10.5% (2007: 7.3%).

5. Investments (continued)

Derivative financial instruments¹

Maturity (In thousands)	Less than 6 months \$	6 months and more \$	Total \$
2008			
Fair value			
Stock futures	32		32
Stock option contracts			
Written call options	(2)	(16)	(18)
Purchased put options	1,824	49	1,873
Written put options	(1,070)	(6)	(1,076)
Bond futures		498	498
Bond option contract			
Written call options	(544)		(544)
Interest rate swap		(59)	(59)
Foreign currency forward contract	956		956
	1,196	466	1,662
Notional amount			
Stock futures	78		78
Stock option contracts			
Written call options	6,048	211	6,259
Purchased put options	4,514	201	4,715
Written put options	4,082	110	4,192
Bond futures		79,000	79,000
Bond option contract			
Written call options	79,000		79,000
Interest rate swap		25,000	25,000
Foreign currency forward contract	24,855		24,855
2007			
Fair value			
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

1. The net fair value of these derivative financial instruments is \$1.7 million (2007: \$-12.4 million). The fair value of instruments with positive values is \$2.8 million (2007: \$6.2 million) and is presented under Investments, whereas the fair value of those with negative values is \$1.1 million (2007: \$18.6 million) and is presented under Accounts payable.

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

5. 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)					
2008					
Investments at cost	871,083	778,879	1,116,095	656,859	3,422,916
Unrealized appreciation (depreciation)	(301,977)	(137,130)	205,953	120,015	(113,139)
Fair value	569,106	641,749	1,322,048	776,874	3,309,777
Allocation of investments made by the regional or local funds	10,537	64,388	43,407	(118,332)	-
Funds committed but not disbursed ¹	360,890	95,741	118,167	50,520	625,318
Guarantees and suretyships ²		4,023	925	21,500	26,448
Maximum risk	940,533	805,901	1,484,547	730,562	3,961,543
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

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.

5. 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)	2008 \$	2007 \$
Loans on real estate projects	21,500	21,500
Operating activities and operating lines of credit – without recourse	4,948	7,173
Maximum amount	26,448	28,673

As at May 31, 2008 and 2007 there was no unrealized depreciation related to guarantees and suretyships.

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, subject to certain conditions, 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.

6. Other investments

(In thousands)	2008		2007	
	Cost \$	Fair value \$	Cost \$	Fair value \$
Shares and units	1,246,442	1,367,519	1,048,467	1,219,156
Units of funds of hedge funds	248,018	246,094	93,917	102,411
Bonds	2,584,658	2,580,832	3,114,550	3,100,648
Money market instruments	79,445	75,353	7,810	7,829
	4,158,563	4,269,798	4,264,744	4,430,044
Derivative financial instruments	13,350	20,593	(984)	46,740
	4,171,913	4,290,391	4,263,760	4,476,784

Other investments include securities denominated in foreign currencies, predominantly the U.S. dollar, with a fair value of \$1,060.6 million (2007: \$636.3 million).

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

6. 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 \$
2008							
Fair value	213,936	919,476	801,445	177,484	402,527	65,964	2,580,832
Cost	216,123	919,620	807,688	176,764	398,569	65,894	2,584,658
Par value	213,081	903,586	800,968	166,057	370,113	61,268	2,515,073
Average effective rate	4.2%	4.8%	4.8%	5.4%	5.5%	5.1%	4.9%
Average nominal rate	5.3%	5.2%	4.9%	6.0%	6.0%	5.5%	5.3%
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%

Money market instruments

Maturity (In thousands)	Less than 1 month \$	1 to 6 months \$	6 months and more \$	Total \$
2008				
Fair value	52,559	14,986	7,808	75,353
Average effective rate	3.3%	2.4%	2.7%	3.1%
2007				
Fair value	3,437	3,474	918	7,829
Average effective rate	4.2%	3.9%	4.2%	4.1%

6. Other investments (continued)

Breakdown by maturity (continued)

Derivative financial instruments¹

Maturity (In thousands)	Less than 1 month \$	1 to 6 months \$	6 months and more \$	Total \$
2008				
Fair value				
Stock option contracts				
Written call options	(15,333)	(2,325)		(17,658)
Purchased put options	-	2,999		2,999
Written put options	-	(1,816)		(1,816)
Bond option contracts				
Written call options		(976)	(2,414)	(3,390)
Bond futures	368	567	(4)	931
Stock index option contracts				
Written call options	(23,793)	(3,455)		(27,248)
Purchased put options	2	3,257		3,259
Written put options	-	(1,449)		(1,449)
Foreign currency forward contracts	(16,803)	586		(16,217)
	(55,559)	(2,612)	(2,418)	(60,589)
Notional amount				
Stock option contracts				
Written call options	62,285	36,097		98,382
Purchased put options	57,414	33,657		91,071
Written put options	49,973	28,609		78,582
Bond option contracts				
Written call options		232,600	215,000	447,600
Bond futures	910,150	481,700	146,700	1,538,550
Stock index option contracts				
Written call options	107,058	49,160		156,218
Purchased put options	100,000	46,377		146,377
Written put options	90,000	39,420		129,420
Foreign currency forward contracts	1,611,931	1,273,633		2,885,564

1. The net fair value of these derivative financial instruments is \$-60.6 million (2007: \$31.6 million). The fair value of instruments with positive values is \$20.6 million (2007: \$46.7 million) and is presented under Other investments, whereas those with negative values is \$81.2 million (2007: \$15.1 million) and is presented under Accounts payable.

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

6. Other investments (continued)

Breakdown by maturity (continued)

Derivative financial instruments (continued)

Maturity (In thousands)	Less than 1 month \$	1 to 6 months \$	6 months and more \$	Total \$
2007				
Fair value				
Bond option contracts				
Written call options		-	(13)	(13)
Bond futures		1,321	35,498	36,819
Stock index futures	-	(377)		(377)
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)
Foreign currency forward 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 futures	40,627	25,000		65,627
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
Foreign currency forward contracts	79,601	563,010		642,611

6. Other investments (continued)

Breakdown of fair value by industry segment¹

(In thousands)	Shares and Units \$	Bonds \$	Money market instruments \$	Total \$
2008				
Government and government agencies		1,137,625	26,720	1,164,345
Financial institutions	191,761	996,836	22,932	1,211,529
Technology	202,667	66,141		268,808
Manufacturing and primary	849,101	256,173	25,701	1,130,975
Services and tourism	370,084	124,057		494,141
	1,613,613	2,580,832	75,353	4,269,798
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

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

7. Securities lending

In the normal course of business, the Fund carries out securities lending transactions in order to generate additional revenues. 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, 2008, this percentage is between 100% and 105%, (2007: between 102% and 105%) and the fair value of the securities loaned is \$340 million (2007: \$379 million).

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

8. Capital assets

(In thousands)	Cost \$	Accumulated amortization \$	Net book value \$
2008			
Buildings	66,767	10,223	56,544
Office furniture and equipment	16,389	14,296	2,093
Computer hardware and software	7,466	5,387	2,079
Information systems development	12,445	11,528	917
	<u>103,067</u>	<u>41,434</u>	<u>61,633</u>
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
	<u>107,648</u>	<u>42,366</u>	<u>65,282</u>

The net book value of the portion of buildings held for rental amounts to \$23.6 million (2007: \$26.4 million).

9. Amounts under management

Amounts under management are repayable on demand and renewable monthly. They bear interest at a rate based on the rate of return of Other investments. Consequently, the fair value of these amounts under management from the specialty and regional funds corresponds to their carrying amount. As at May 31, 2008, the interest rate is 4.25% (2007: 4.75%).

10. Credit facilities

The Fund has credit facilities amounting to \$50 million (2007: \$40 million), bearing interest at prime rate and renewable annually. As at May 31, 2008 and 2007, these facilities are unused.

11. 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 inalienable 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 dissolution, liquidation or any other distribution of the Fund's assets in whole or in part, these shares entitle their holders the right to be reimbursed after all Class A and B shareholders have been reimbursed.

Class B shares

Unlimited number of Class B shares, without par value, non-voting, 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.

Transfers

During the year, the Board of Directors approved resolutions to increase the issued and paid-up capital on Class A shares, Series 1 by \$128 million (2007: \$100 million) through transfers from retained earnings.

As at May 31, 2008, the Fund had transferred a cumulative amount of \$1,252 million from retained earnings to share capital.

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

11. Net Assets (continued)

Issued, paid-up and subscribed capital

	Share Capital						
	Issued				Subscribed	Total	
	Class A		Class G		Class A		
	Series 1		Series 2				
	Number	\$	Number	\$	Number and \$	\$	\$
(In thousands)							
2008							
Balance at beginning of year	280,932	6,272,301	3,696	77,326	20,125	389	6,370,141
Share issues	23,713	598,986	479	12,040			611,026
Net change in share subscriptions						(12)	(12)
Share redemptions	(18,261)	(412,529)	(509)	(10,828)			(423,357)
Transfers		128,000					128,000
Balance at end of year	286,384	6,586,758	3,666	78,538	20,125	377	6,685,798
2007							
Balance at beginning of year	273,754	5,968,803	3,712	76,489	20,125	346	6,065,763
Share issues	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

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.

12. 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 contingent liabilities, net of the provisions recorded, would not have a material adverse effect on the Fund's financial position.

13. Revenues

The change in unrealized appreciation or depreciation in unlisted financial instruments for the year is a negative amount of \$90.5 million. Interest on amounts under management totalling \$17.8 million (2007: \$17.0 million) is recorded against Realized revenues – Interest and is capitalized to Amounts under management.

14. Operating expenses

(In thousands)	2008 \$	2007 \$
Salaries and benefits	60,841	58,784
Occupancy expenses and rent	10,717	11,027
Advertising and information	10,422	9,278
Professional fees	6,902	8,906
Management fees	8,244	5,427
Travel and entertainment	2,591	2,805
Stationery and office supplies	2,357	2,425
Fees and other income	(4,220)	(4,920)
Rental income	(3,912)	(3,328)
Capital tax	4,214	4,096
Amortization of information systems development	1,409	1,722
Amortization of other capital assets	4,295	4,324
	103,860	100,546

15. Income taxes

Income taxes are as follows:

(In thousands)	2008 \$	2007 \$
Current (recovered)	(7,652)	5,585
Future	2,702	9,365
	(4,950)	14,950

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 (loss) before income taxes. The difference is explained as follows:

(In thousands)	2008 \$	2007 \$
Income taxes based on combined income tax rate of 45.8% (2007: 45.7%)	(43,106)	223,928
Non-taxable dividends	(19,384)	(11,949)
Capital gain or loss and change in unrealized appreciation or depreciation		
Additional provincial income taxes	(15,150)	18,394
Rate difference and non-deductible (non-taxable) portion	64,434	(95,531)
Refundable federal tax	28,925	(44,512)
Provincial tax deduction	21,501	(26,220)
Refundable dividend tax on hand	(42,467)	(48,715)
Large corporations tax	-	(1,519)
Other items	297	1,074
	(4,950)	14,950

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

15. Income taxes (continued)

Items giving rise to future income tax assets are as follows:

(In thousands)	2008 \$	2007 \$
Capital assets	-	557
Investments and other	-	163
	<u>-</u>	<u>720</u>

Items giving rise to future income tax liabilities are as follows:

(In thousands)	2008 \$	2007 \$
Capital assets	(153)	397
Investments and other	2,874	343
	<u>2,721</u>	<u>740</u>

At the federal level, the Fund is taxed according to the rules for mutual fund corporations. Income taxes paid on capital gains are 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 \$19.1 million (2007: \$16.9 million) 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 \$42.9 million (2007: \$33.6 million), \$42.7 million (2007: \$33.3 million) was applied to reduce 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.

16. 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 plan assets are as at March 31, 2008. The most recent actuarial valuation of the pension plans for funding and solvency purposes was as of December 31, 2006 and the next valuation will take place on December 31, 2009 at the latest.

16. Employee future benefits (continued)

Information about the plans is as follows:

	2008		2007	
	Pension Plans \$	Insurance Plan \$	Pension Plans \$	Insurance Plan \$
(In thousands)				
Accrued benefit obligation				
Balance at beginning of year	60,680	1,281	46,176	1,741
Current service cost	10,904	87	8,441	135
Interest cost	3,451	68	2,769	98
Benefits paid	(907)	(9)	(1,233)	(6)
Past service gain				(1,049)
Actuarial loss (actuarial gain)	(2,970)	(54)	4,527	362
Balance at end of year	71,158	1,373	60,680	1,281
Plan assets				
Balance at beginning of year	47,674	-	37,920	-
Fund contributions	4,859	9	3,788	6
Employee contributions	4,737		3,221	
Benefits paid	(907)	(9)	(1,233)	(6)
Actual return on plan assets	(1,034)		3,978	
Balance at end of year	55,329	-	47,674	-
Reconciliation of accrued benefit obligation and plan assets				
Funded status – deficit	(15,829)	(1,373)	(13,006)	(1,281)
Unamortized net actuarial loss	7,791	483	6,637	572
Unamortized past service cost (gain)	54	(297)	61	(336)
Accrued benefit liabilities	(7,984)	(1,187)	(6,308)	(1,045)

These accrued benefit liabilities are presented under Accounts payable.

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

16. Employee future benefits (continued)

Additional information about plan assets

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

	2008 %	2007 %
Equity mutual funds	59.5	59.6
Bond mutual funds	39.8	39.8
Cash and other	0.7	0.6
	100.0	100.0

Costs recognized in the year were as follows:

	2008		2007	
	Pension Plans \$	Insurance Plan \$	Pension Plans \$	Insurance Plan \$
(In thousands)				
Current service cost, net of employee contributions	6,167	87	5,220	135
Interest cost	3,451	68	2,769	98
Actual return on plan assets	1,034		(3,978)	
Past service gain				(1,049)
Actuarial loss (actuarial gain)	(2,970)	(54)	4,527	362
Cost before adjustments to recognize the long-term nature of employee future benefits	7,682	101	8,538	(454)
Difference between actual and expected return on plan assets	(4,280)		1,360	
Difference between actuarial loss recognized and actual actuarial loss or gain on accrued benefit obligation	3,126	89	(4,512)	(359)
Difference between amortization of past service cost or gain and actual plan amendments	7	(39)	6	1,049
Amortization of transitional obligation				71
Costs recognized in the year	6,535	151	5,392	307

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 \$4.9 million (2007: \$3.8 million).

16. Employee future benefits (continued)

Significant actuarial assumptions

The significant actuarial assumptions used to determine the accrued benefit obligation and the costs recognized for the plans are as follows:

	2008		2007	
	Pension Plans %	Insurance Plan %	Pension Plans %	Insurance Plan %
Accrued benefit obligation				
<i>Rate at end of year</i>				
Discount rate	5.25	5.25	5.00	5.00
Rate of compensation increase	3.50		3.50	
Accrued benefit costs recognized				
<i>Rate at end of previous year</i>				
Discount rate	5.00	5.00	5.25	5.25
Expected rate of return on plan assets	6.25		6.50	
Rate of compensation increase	3.50		3.50	

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.

17. 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, in particular 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, 2008 and 2007 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 activities. 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 appoints 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 \$3.7 million (2007: \$3.5 million).

The Fund granted non-interest bearing loans of \$20 million with a fair value of \$18.8 million (2007: \$17.9 million) to the Fonds étudiants solidarité travail du Québec (FESTQ), which are considered related entities because the Fund appoints some of their directors together with the Government of Québec.

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

Notes to Financial Statements (continued)

AS AT MAY 31, 2008 AND 2007

18. Financial instruments

Risk management

Risk is managed within a framework taking into account the nature of the activities and the level of risk the Fund considers reasonable to assume in light of the desired risk/return ratio and shareholder expectations. Financial instruments are managed in an integrated, comprehensive manner. In the normal course of business, the Fund is exposed to different risks, and the main ones are as follows:

Market risk

Market risk is inherent to the Fund's participation in financial markets and represents the risk of losses arising from fluctuations in and the volatility of interest rates, exchange rates and listed financial instrument prices. The Fund's financial instruments are especially sensitive to fluctuations in bond interest rates and listed stock prices.

This risk is managed by allocating financial instruments across several classes (money market, bonds, income trusts, preferred shares, investments in private companies, listed shares, funds of hedge funds, etc.) and by diversifying the industries and geographic areas, within the limits allowed by the Incorporation Act of the Fund. In addition, given the exchange risk the Fund is exposed to, common hedging mechanisms are used.

Credit and counterparty risk

Credit risk is the potential for loss due to the failure of a partner company, issuer or counterparty to honour its financial obligations. This risk is managed in accordance with a policy that, among other things, sets guidelines and limits by asset class and issuer.

Sector-based targets are approved each year for the investment sector. Other investments are carefully diversified based on criteria pertaining to issuer and counterparty credit ratings and exposure limits by borrower or counterparty, thus ensuring that the Fund's results will not be materially affected in the event of a payment default.

Liquidity risk

Liquidity risk is the potential for loss due to the inability of the Fund to honour its obligations to make the required cash payments. The Fund must honour certain disbursements on a daily basis, mainly when shareholders redeem their Class A shares and when the Fund invests in companies.

This risk is managed by investing a part of the financial assets in securities traded on organized markets, in accordance with the Incorporation Act and the overall financial assets management policy.

Derivative financial instruments

Derivative financial instruments are used only to preserve the value of assets, to facilitate changes in asset allocation, to manage a portion of the portfolio through indexing, to facilitate portfolio management and to enhance the yield within the allocated risk limits.

19. Comparative figures

Certain comparative figures have been reclassified to be comparable with those of the current year.

20. 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 website at www.fondsftq.com and on SEDAR at www.sedar.com.