

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD
ENDED NOVEMBER 30, 2012

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This Management Discussion and Analysis (“MD&A”) is intended to help the readers to assess, through the eyes of management, the Fonds de solidarité FTQ’s (the “Fonds”) results and financial condition and the material changes therein during the six-month period ended November 30, 2012. The interim MD&A complements and supplements the financial statements as at November 30, 2012 and contains financial highlights, but does not contain the financial statements of the Fonds. To facilitate understanding of events and uncertainties, this MD&A should be read together with the financial statements and the notes thereto.

This MD&A contains forward-looking statements about the Fonds’ activities, results, and strategies that should be interpreted with caution. These forecasts necessarily involve assumptions, uncertainties and risks; it is therefore possible that a number of factors may cause them not to materialize. Legislative or regulatory changes, economic and business conditions and the level of competition are some examples of major factors that may influence, sometimes significantly, the accuracy of the forward-looking statements in this MD&A. This MD&A is dated December 21, 2012.

The Fonds is subject to the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure* (the “Regulation”) and, as such, applies the requirements of this Regulation, notably to its financial statements and its interim MD&A.

You can get a copy of the financial statements as at November 30, 2012 at your request, and at no cost, by calling us at 514-383-3663 or toll free at 1-800-567-3663, by writing to us at 8717 rue Berri, Montréal, Québec H2M 2T9 or by visiting our website at www.fondsftq.com or the SEDAR website at www.sedar.com. You can also obtain a copy of the annual documents in this same manner.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fonds and are intended to help you understand the Fonds’ financial performance for the past five financial years and the six-month period ended November 30, 2012. This information is derived from the Fonds’ audited financial statements. The Fonds’ results are discussed under “Results of operations” on page 3.

RATIOS AND SUPPLEMENTAL DATA

Six-month period or years ended

	November 30, 2012 (six-month period)	May 31, 2012	May 31, 2011	May 31, 2010	May 31, 2009	May 31, 2008
(in millions of dollars, unless otherwise specified)						
Revenues	126	247	256	222	239	261
Net earnings (net loss)	198	215	650	600	(919)	(89)
Net assets	8,763	8,525	8,178	7,294	6,375	7,285
Class A shares outstanding (number, in thousands)	322,158	320,629	315,504	305,951	291,733	290,050
Total operating expense ratio* (%)	0.68	1.46	1.47	1.54	1.70	1.36
Portfolio turnover rate** :						
Development capital investments (%)	4.15	12.09	11.38	7.93	6.71	12.22
Other investments (%)	57.99	158.61	172.57	233.20	179.65	118.80
Trading expense ratio*** (%)	0.02	0.02	0.02	0.03	0.02	0.03
Number of shareholders (number)	**** 594,287	594,287	583,235	577,511	570,889	575,394
Issues of shares	249	767	698	660	655	611
Redemption of shares	215	620	465	341	647	476
Fair value of development capital investments*****	5,854	5,757	5,207	4,784	4,598	3,959

* The total operating expense ratio is obtained as follows: for a six-month period, by dividing expenses for the six-month period, as shown in the Statement of Operations, by the net assets at the end of that six-month period; for a year, by dividing expenses (excluding capital tax) for the year, as shown in the Statement of Operations, by the average net assets for that year. The total operating expense ratio for the six-month period ended November 30, 2012 is presented on a non-annualized basis.

** The portfolio turnover rate reflects the number of changes made to the composition of the portfolio. There is not necessarily a relationship between a high turnover rate and the portfolio’s performance. The portfolio turnover rate for the six-month period ended November 30, 2012 is presented on a non-annualized basis.

*** The trading expense ratio represents transaction costs expressed as an annualized percentage of net assets, for the six-month period, and of average net assets, for the year.

**** As at May 31, 2012.

***** These investments include funds committed but not disbursed as well as guarantees and suretyships.

CHANGE IN NET ASSETS PER SHARE

Six-month period or years ended

(in dollars)	November 30, 2012 (six-month period)	May 31, 2012	May 31, 2011	May 31, 2010	May 31, 2009	May 31, 2008
Net assets per share, beginning of six-month period / year*	26.59	25.92	23.84	21.78	25.05	25.36
Increase (decrease) from operations**:	0.62	0.68	2.10	2.01	(3.16)	(0.31)
Interest and dividends	0.39	0.78	0.82	0.74	0.82	0.90
Total operating expenses	(0.19)	(0.39)	(0.38)	(0.37)	(0.37)	(0.34)
Income tax and capital tax	(0.03)	(0.09)	(0.08)	(0.09)	(0.05)	0.00
Realized gains (losses)	0.12	0.16	0.26	0.22	(1.31)	0.35
Unrealized gains (losses)	0.33	0.22	1.48	1.51	(2.25)	(1.22)
Variance from issues and redemptions of shares	(0.01)	(0.01)	(0.02)	(0.02)	(0.11)	0.00
Variance from the transfer of Class G shares	-	-	-	0.07	-	-
Net assets per share, end of six-month period / year*	27.20	26.59	25.92	23.84	21.78	25.05

* The amount of net assets per share is based on the actual number of shares outstanding at the relevant time.

** The increase (decrease) from operations is based on the weighted-average number of shares outstanding during the relevant six-month period or financial year.

ECONOMIC CONDITIONS**World and the United States**

Over the last six months, the global economic and financial environment has remained tense. Almost everywhere around the world, the uncertainty plaguing the ability of political and financial authorities to unravel the sovereign debt crisis continued to be felt. Industrialized countries, including several that are also dealing with major structural problems, have felt the effects, which at the same time limited their growth. Emerging economies, including China and India, were also affected during this period, as their rapid growth up to then began to slow due, among other things, to weak growth in industrialized countries, which reduced their exports. All this tension exerted downward pressure on bond rates and led to volatility in commodity prices such as copper, gold and oil. Around the world, economic and financial issues therefore remained significant, and there are still many obstacles on the road to greater stability.

Several countries in the Eurozone are in recession, and the situation remains very fragile for a variety of reasons – the political and social climate in Greece, the instability of the Spanish and Portuguese banking system, or the risk that the crisis might spread to other countries such as Italy. Despite all this, for the last six months, European political authorities and the European financial community successfully weathered the storm, largely thanks to Germany, which drove growth in the Eurozone. For several months, conditions worsened so much that speculation was rampant that the Eurozone would collapse. But even if this possibility cannot be totally ignored, the situation seems to have improved somewhat during the six-month period. Progress has been particularly notable since the president of the European Central Bank (ECB) promised last summer to take all necessary measures to save the Euro. To that end, the ECB launched a program under which it may purchase an unlimited amount of bonds from countries that requested assistance from the European Rescue Fund to soothe the financial tensions. It should be noted that in return for receiving this assistance, countries must adhere to stringent rules to improve their public finances.

In the United States, the economic slowdown experienced since spring 2012 is a clear indication that the remnants of the 2008-2009 recession are still firmly present, and that the risk of sliding back into recession has not total dissipated. Even if, unlike many Eurozone countries, the United States successfully avoided a recession in the last six months, it is still a very real threat. This is especially true in the current conditions with intense uncertainty surrounding the government's impasse regarding what is now commonly called the "fiscal cliff," which is a series of fiscal measures that, unless an alternative plan is agreed upon, will come into effect in January 2013 and may lead to a recession.

After rebounding in the last quarter of 2011, the U.S. economy showed weaker GDP growth in the following two quarters. Many factors, including lack of household and corporate confidence in the economy and the persistence of financial fears related to Europe, are behind this situation. However, there was some improvement during the third quarter of 2012, as GDP growth gained momentum compared to the previous quarter (2.7% compared to 1.3%). The savings rate remained low (settling at 3.4% in October 2012). Job creation, while strong in winter 2012, slowed down in the spring, and then accelerated over the last few months. This acceleration had a positive ripple effect on the unemployment rate, which fell during the last six months, sitting at 7.7% in November 2012, compared to 8.2% in May 2012. In the real estate market, gains in home values were modest and the level of activity remained sluggish; however, the trend that is appearing on the horizon seems to be encouraging. On the inflation front, the annual variation of the U.S. CPI was 1.8% on average since May 2012. Lastly, the key interest rate has remained unchanged at 0.25% since December 2008.

Canada and Québec

Over the last six months, Canada was not shielded from the economic sluggishness and uncertainty that spread around the world. The Canadian economy continued to grow, but at a relatively moderate pace. During this period, residential and non-residential investments continued growing sharply, but their contribution to economic growth was offset in part by sliding governmental spending due to the fight against the deficit. Domestic demand only rose slightly as a result of weak consumer spending. Exports continued to grow, but not sufficiently to offset strong imports, which were made necessary by corporate investments. On the inflation front, the annual fluctuation of the Canadian CPI was 1.3% on average since May 2012. The unemployment rate decreased slightly from 7.3% in May 2012 to 7.2% in November 2012. The Canadian dollar traded at \$US1.01 on November 30, 2012, having gained value compared to May 31, 2012, when it traded at \$US 0.97. The discount rate has remained unchanged at 1% since September 2010.

In Québec, growth remained weak: GDP grew at a rate of 0.5% in the first quarter and 0.8% in the second quarter of 2012, mainly due to the erosion of household spending and poor foreign trade. The unemployment rate was 7.6% in November 2012, lower than the rate of 7.8% recorded in May 2012; this rate is higher than the rate for Canada (7.2%) and lower than the rate for Ontario (7.9%).

During the last six months, short-term (2 years) and long-term (10 years) interest rates on Canadian government bonds remained relatively stable. Provincial and investment-grade corporation credit spreads fluctuated during this period; however, as at November 30, 2012, provincial credit spreads had worsened and investment-grade corporation credit spread had improved compared to May 31, 2012.

The economic uncertainty that persisted around the world in the last few months continued to impact the performance of many financial institutions, including the Fonds.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

OVERALL RESULTS

For the six-month period, the Fonds recorded net earnings of \$198 million, compared to \$19 million for the corresponding period of the prior year. With these results, the Fonds generated a return of 2.3%, up from the return of 0.2% experienced for the same period a year ago, in less favourable economic conditions. The value of the Fonds' shares therefore increased by \$0.61 compared to the price reported in July 2012 to stand at \$27.20. The Fonds' net assets amounted to \$8.8 billion as at November 30, 2012, compared to \$8.5 billion as at May 31, 2012. For the last 12 months (from December 1, 2011 to November 30, 2012), the Fonds generated a return of 4.7%, compared to a return of 3.8% for the corresponding period in 2010-2011.

As a result of its mission, a significant portion of the Fonds de solidarité FTQ's portfolio is comprised of private securities and specialized funds. Consequently, the Fonds did not benefit from the full effect of the increase on the stock markets that occurred in the past months. In fact, the Fonds' asset allocation tends to limit its return potential in a bull market such as we have experienced in the six-month period, while the opposite occurs in a bear market. In that respect, the Fonds had been able to achieve, for the six-month period ended November 30, 2011 and for the 12-month period ended November 30, 2011, a return that was higher than the average return of Canadian balanced mutual funds¹.

¹ Average return of Canadian neutral balanced funds as compiled by globefund.com.

FONDS RETURN

Six-month periods ended November 30

	2012			2011		
	Assets under management at end of period* \$M	Weight %	Return %	Assets under management at end of period* \$M	Weight %	Return %
Development capital investments	4,661	53.1	2.8	4,075	49.8	2.6
Other investments**	4,124	46.9	3.6	4,105	50.2	(0.3)
	8,785	100.0	3.1	8,180	100.0	1.1
Total operating expenses			(0.7)			(0.7)
Income tax			(0.1)			(0.2)
Fonds return (six-month period)			2.3			0.2
Fonds return (last 12 months)			4.7			3.8

* Assets under management at end of period refer to the fair value, at the end of the six-month period, of the assets managed by the Investments and Other Investments sectors and used to generate revenues presented in the Statement of Operations. This amount differs from the amount of assets presented in the financial statements, which includes, unlike assets under management, notes from the liquidity surpluses of regional and local funds and certain specialized funds.

** Other investments represent the remaining assets not invested in partner companies. Managed by the Other Investments sector, they consist of the following portfolios: bonds, cash and money market, sector-based shares, absolute return strategies, international infrastructure funds and high-income.

SECTOR RESULTS

Investments sector

The assets managed by the Investments sector are essentially mission-driven development capital investments made by the Fonds in public and private companies in the form of shares, units or loans. To stabilize its return, the Fonds favours a fair balance between investments in the form of loans – that are usually unsecured and provide a current return through interest payments –, investments in shares – that potentially generate a higher return but involve an increased level of volatility –, and investments in specialized fund units – that allow the Fonds to better diversify its portfolio while bringing private and foreign capital inflows to Québec. Development capital investments are governed by the Fonds' *Investment Policy*, which is an important component of its *Integrated Financial Assets Management Policy*.

The Investments sector earned a gross return of 2.8% for the six-month period, up from the gross return of 2.6% generated for the corresponding period in 2011. Taking into account this return and given the level of mission-driven investments made by the Fonds during the six-month period, the assets in this sector represented \$4.7 billion or 53.1% of assets under management as at November 30, 2012 (49.8% as at November 30, 2011).

The performance of the Investments sector is influenced by various factors, particularly the behaviour of the financial markets as well as the economic and business conditions in which our partner companies operate, and by the dynamic management of our investments. The gross return of 2.8% of the Investments sector for the most recently ended six-month period is largely explained by the following:

- the return of 3.6% generated by our private securities and specialized funds portfolio during the six-month period (compared to 6.1% for the corresponding period in 2011, when significant increases in value had been recorded on some of our investments, including the one in Enobia Pharma). This performance is essentially attributable to the general strength of the portfolio, which produced interest and dividend revenues and, in addition, generated an increase in value during the six-month period;
- the negative return of 1.2% generated by our portfolio of listed securities during the six-month period. This return is mainly explained by the poor performance of some of our investments in small-cap companies. For the same period in 2011, this portfolio had recorded a negative return of 13.3%, when the stock market conditions were much less favourable.

Other Investments sector

The Other Investments sector manages the Fonds' assets that are not invested in partner companies. These other investments consist of the following portfolios: bonds, cash and money market, sector-based shares, absolute return strategies, international infrastructure funds and high-income. As with development capital investments, other investments are managed in accordance with the *Integrated Financial Assets Management Policy*, which targets sound diversification of the Fonds' financial assets. Under this policy, a sufficient portion of financial assets must be invested in a way that allows the Fonds to meet its liquidity needs, to produce current revenue sufficient to cover its expenses and to contribute to the generation of a reasonable return to its shareholders.

For the six-month period, the Other Investments sector earned a positive gross return of 3.6%, up from the negative gross return of 0.3% recorded for the corresponding period in 2011. The assets of this sector represented \$4.1 billion or 46.9% of the Fonds' assets under management as at November 30, 2012 (50.2% as at November 30, 2011).

The evolution of interest rates and the performance of the stock markets are the determining factors in analyzing the performance of the Other Investments sector. Accordingly, the results achieved by this sector are influenced by the behaviour of the financial markets and the conditions affecting the economic environment. The positive gross return of 3.6% of the Other Investments sector for the six-month period is largely explained by the following:

- the increase in stock markets during the past months, which led to a positive return of 5.7% for the sector-based shares² and the other securities³ portfolios. This performance followed a negative return of 6.0% for the same period last year, when the economic conditions both in Canada and internationally were much less favourable;
- the return of 1.9% on our fixed-income securities portfolio for the six-month period, compared to 3.8% for the corresponding period of the previous year. Since changes in interest rates and credit spreads had, taken as a whole, relatively little impact on the portfolio during the six-month period, this return is essentially attributable to interest revenues generated by the portfolio.

RETURN BY ASSET CLASS

Six-month periods ended November 30

	2012			2011		
	Assets under management at end of period \$M	Weight %	Return %	Assets under management at end of period \$M	Weight %	Return %
Development capital investments						
Private securities and specialized funds	3,896	44.4	3.6	3,422	41.8	6.1
Listed securities	765	8.7	(1.2)	653	8.0	(13.3)
Other investments						
Fixed-income securities	2,320	26.4	1.9	2,402	29.4	3.8
Sector-based shares and other securities	1,804	20.5	5.7	1,703	20.8	(6.0)
	8,785	100.0	3.1	8,180	100.0	1.1

TOTAL OPERATING EXPENSES

Total operating expenses consist mainly of expenses related to assets under management, shareholder services, subscription activities, systems and controls and their improvement, prospecting and monitoring of partner companies, personnel and all other resources the Fonds de solidarité FTQ requires to achieve its mission and meet its objectives. Although it is essential that the Fonds has available resources to achieve its mission, it is also fundamental that it controls its expenses. Year after year, the Fonds was able to maintain its total operating expenses at a level it considers to be low.

For the six-month period ended November 30, 2012, the ratio of total operating expenses to net assets at the end of the six-month period (on a non-annualized basis), calculated using the method prescribed in the Regulation, was 0.7%, which is the same as for the corresponding period of the previous year. Expressed in dollars, total operating expenses amounted to \$59.4 million for the six-month period ended November 30, 2012, compared to \$54.6 million for the same period a year ago. This increase is largely attributable to the increase in salaries and benefits as well as in expenses related to the advertising and information campaigns.

² These sectors are materials, energy, consumer staples, utilities and telecommunications.

³ Other securities are comprised of the following portfolios: absolute return strategies, international infrastructure funds and high-income.

ANALYSIS OF CASH FLOWS, BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

Cash flows

Cash flows from operating activities of the Fonds totalled \$63 million for the six-month period, down from \$110 million for the corresponding period in 2011. Changes in these cash flows mainly result from our current operations.

Cash flows from financing activities of the Fonds totalled \$45 million for the six-month period, compared to \$24 million for the corresponding period in 2011. These cash flows for the six-month period result mainly from issues of shares amounting to \$249 million (\$235 million for the corresponding period in 2011) less redemptions of shares totalling \$216 million⁴ (\$256 million for the corresponding period in 2011).

Cash flows from investing activities of the Fonds represented a net cash outflow of \$112 million for the six-month period, compared to \$132 million for the corresponding six-month period of 2011. Cash needed to support net investments (acquisitions less proceeds from sales) in partner companies was provided by cash flows both from operating activities and financing activities of the Fonds mentioned above.

The Fonds also has lines of credit available for its working capital requirements. As at November 30, 2012, these lines of credit were unused.

Balance sheet and off-balance sheet items

Balance sheet development capital investments of the Fonds increased from \$4.9 billion as at May 31, 2012 to \$5.1 billion as at November 30, 2012. This \$186 million increase mainly resulted from our net disbursed investments of \$141 million (disbursed investments of \$282 million less disinvestments of \$141 million) and the appreciation of our development capital investments during the six-month period. During the six-month period, on a commitment basis, the Fonds made development capital investments of \$204 million, compared to \$546 million for the corresponding period of prior year. On the other hand, amounts committed but not disbursed decreased from \$822 million as at May 31, 2012 to \$733 million as at November 30, 2012.

In addition, balance sheet other investments decreased by \$107 million during the six-month period to settle at \$4.0 billion as at November 30, 2012 (\$4.1 billion as at May 31, 2012). This decrease is mainly attributable to the volume of net development capital investments disbursed during the six-month period.

The Fonds uses derivative financial instruments in particular to safeguard the value of its assets, to facilitate the management of its portfolios, to modify its asset allocation without increasing or decreasing the amounts managed by internal and external specialists and to improve its returns within allocated risk limits. (See the "Risk Management" section on page 14 for more details.)

MISSION OF THE FONDS DE SOLIDARITÉ FTQ, OBJECTIVES AND STRATEGIES

Since the issuance of the last annual MD&A, there have been no material changes to the Fonds' mission, objectives and strategies.

60% RULE

The 60% rule set out in the Fonds' Incorporation Act stipulates that the Fonds' average unsecured investments in qualified business enterprises must represent at least 60% of its average net assets of the previous financial year. The Fonds may invest the remaining assets in other financial vehicles for asset diversification and sound management purposes. The calculation method for this rule is based on the value of the Fonds' assets, which depends in part on interest rate fluctuations and on the performance of stock markets and the economy in general.

As at May 31, 2012, the value of average qualified investments⁵ amounted to \$5.1 billion or 67.0% of the average net assets of the previous financial year (compared to 71.0% as at May 31, 2011). Since the minimum percentage prescribed was reached as at May 31, 2012, the amount of share issues for the 2012-2013 financial year will not be limited by the 60% rule. As at November 30, 2012 and May 31, 2012, the Fonds was also in compliance with all other limits and rules set out in its Incorporation Act.

The Fonds expects to comply with all the limits and rules set out in its Incorporation Act over the next several years.

⁴ This amount is presented on a cash basis and therefore includes the change in amounts payable between May 31, 2012 and November 30, 2012.

⁵ These investments include amounts committed but not disbursed as well as guarantees and suretyships.

RECENT DEVELOPMENTS

ACCOUNTING POLICIES

The Fonds does not anticipate adopting new accounting policies that would significantly affect its net earnings for the financial year or the value of its net assets as at May 31, 2013.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2008, the Accounting Standards Board of Canada (AcSB) announced that publicly accountable enterprises would have to replace Canadian GAAP by IFRS in their financial statements for the years beginning on or after January 1, 2011. Then, in December 2011, the AcSB confirmed that investment companies, as defined in the Accounting Guideline on investment companies of the Canadian Institute of Chartered Accountants (CICA) Handbook, will have to apply IFRS for the first time to their interim and annual financial statements for the years beginning on or after January 1, 2014, at the latest. The Fonds intends to meet the first-time adoption date and will therefore prepare its financial statements in accordance with IFRS for the first time for the six-month period ending November 30, 2014.

IFRS conversion plan

The Fonds adopted an IFRS conversion plan comprised of three phases: a diagnostic phase; a standards assessment, detailed analysis, issue resolution and model financial statements preparation phase; and a change integration phase.

The first phase was completed before the end of the financial year ended May 31, 2009. This phase included identifying the IFRS having a significant impact on the Fonds as well as the main issues and priorities to assess in the context of the Fonds.

The part of the second phase dealing with standards assessment, detailed analysis and issue resolution, was completed in May 2010. It included a more detailed analysis of the IFRS and the differences with current Canadian standards and their interpretations in order to identify the impact the conversion will have on processes, systems and the financial statements. In the coming months, the Fonds will prepare draft financial statements in accordance with the new standards.

During the change integration phase, we will keep accounting records both under Canadian GAAP and IFRS to be able to present comparative information upon transition. In addition, the Fonds deployed its training plans, which are intended to upgrade the knowledge of its accounting staff and other stakeholders of the organization that are affected by the IFRS conversion.

The Fonds continuously monitors the development of IFRS to assess its impact.

Main expected changes

The following table presents only the significant differences between Canadian GAAP currently applied by the Fonds and IFRS. While noteworthy, these differences do not necessarily have a significant impact on the Fonds' financial statements. This table was prepared based on current standards that would be effective as at the date of transition; however, certain standards could be amended and the Fonds could reassess its position as needed. The impact assessment reflects the results of the analysis based on the current situation.

Accounting policy	Main differences between Canadian GAAP and IFRS	Impact on financial statements
Consolidation	<p>Under GAAP, investment companies meeting certain criteria recognize their investments at fair value, in accordance with Accounting Guideline AcG-18, <i>Investment Companies</i>. This rule applies to all investments, including those in entities in which the investment company holds more than 50% of voting shares and those in entities over which it exercises control.</p> <p>On October 31, 2012, the International Accounting Standards Board (IASB), the international standard-setting organization, issued a document entitled <i>Investment Entities</i> (amendments to IFRS 10, IFRS 12 et IAS 27), which defines investment entities and provides for an exception to the consolidation principle for such entities. Under this exception, investment entities measure their investments in controlled entities at fair value – instead of consolidating them – and recognize changes in fair value in profit or loss. In addition, the document specifies certain disclosure requirements regarding these investments in controlled entities.</p>	<p>The Fonds does not currently prepare consolidated financial statements and recognizes all its development capital investments and other investments at fair value.</p> <p>IFRS now provide for an accounting treatment for controlled entities that is similar to the treatment currently applied by the Fonds. The Fonds believes that it meets the definition of an investment entity set out in the recent amendments to the standards.</p> <p>The Fonds will assess the new disclosure requirements in due time.</p>
Financial instruments	<p>Under GAAP, the Fonds recognizes all its development capital investments and other investments at fair value, in accordance with accounting principles applicable to investment companies.</p> <p>As mentioned above under Consolidation, the IFRS now provide for an accounting treatment for controlled entities that is similar to the treatment currently applied by the Fonds.</p>	<p>The Fonds will recognize all its financial instruments at fair value, as it currently does.</p> <p>There will be no impact on the Fonds' financial statements.</p> <p>The Fonds will assess the new disclosure requirements in due time.</p>
Property and equipment (Capital assets)	<p>IFRS require that each component of an item of property, plant and equipment be depreciated separately when such item of property, plant and equipment is comprised of components to which different depreciation rates apply. Consequently, applying IFRS results in more components being recognized than under GAAP.</p> <p>Under IFRS, an item of property, plant and equipment can be measured using the cost model or the revaluation model. GAAP preclude the remeasurement of property, plant and equipment at fair value.</p> <p>IFRS 1 <i>First-Time Adoption of International Financial Reporting Standards</i> allows an entity to use, upon transition to IFRS, the fair value of an item of property, plant and equipment as its deemed cost as at the date of transition.</p>	<p>The list of the specific components of the Fonds' buildings is currently being developed. This list will be disclosed in the notes to the financial statements.</p> <p>The Fonds expects to use the fair value of its buildings as its deemed cost as at the date of transition.</p> <p>After the transition, the Fonds expects to continue using the cost model to measure its property and equipment.</p> <p>Amounts involved (fair value of buildings and calculation of depreciation by component) are currently being assessed, but they are not expected to have a material impact on net assets, net earnings and net earnings per share.</p>

Accounting policy	Main differences between Canadian GAAP and IFRS	Impact on financial statements
Investment property	<p>Under IFRS, an investment property is defined as a property held to earn rentals or for capital appreciation, or both. An investment property can be measured using the cost model or the fair value model.</p> <p>However, investments entities are required to apply the fair value model, thereby eliminating the above-mentioned choice.</p> <p>GAAP do not include a specific definition of investment property.</p>	<p>The Fonds will present separately the portion of the building that it leases out under Investment property, on its balance sheet.</p> <p>The Fonds will measure this portion of the building that it leases out at fair value.</p> <p>This revaluation is not expected to have a material impact on net assets, net earnings and net earnings per share.</p>
Employee benefits	<p>Under IFRS, past service cost of insurance and defined benefit pension plans for which the benefits are already vested is recognized immediately as an expense. Under GAAP, it is usually amortized over the average remaining service period of active employees.</p> <p>Under GAAP, the actuarial gains or losses of insurance and defined benefit pension plans that exceed the “corridor” are amortized over the average remaining service period of active employees. This option to defer the recognition of gains and losses, which was previously allowed by IFRS, has been eliminated by the issuance of an amendment to IAS 19 <i>Employee Benefits</i>.</p>	<p>The vested portion of past service cost will have to be immediately recognized in net assets. This adjustment will not have a material impact on the Fonds’ financial statements.</p> <p>The Fonds will apply the revised version of IAS 19. Consequently, the unrecognized portion of the net actuarial loss of insurance and pension plans, including the tax impact, will have to be recognized in the Fonds’ net assets at the date of transition.</p> <p>Amounts involved are currently being assessed. The Fonds’ management cannot quantify the future impact of this change in accounting standards, which will depend on the actuarial assumptions prevailing at the date of transition to IFRS.</p> <p>Subsequently, changes in defined benefits and pension plan assets will have to be recorded as they occur.</p> <p>The Fonds will assess the new disclosure requirements in due time.</p>

Accounting policy	Main differences between Canadian GAAP and IFRS	Impact on financial statements
Income taxes	<p>Under GAAP, the portion of income taxes paid that will be refundable in the future upon the payment of dividends or a transfer from retained earnings to share capital must be recognized as an asset. In addition, income tax rates used in the calculation of future income taxes already reflect the favourable effect of refundable taxes.</p> <p>Under IFRS, refundable taxes are recognized as amounts receivable only when dividends or transfers from realized retained earnings to share capital giving right to a refund of these taxes are realized and approved by the Board of Directors. As such, the calculation of future income taxes cannot reflect the favourable effect of refundable taxes.</p>	<p>As a result of this difference, refundable tax balances will have to be written off as at the date of transition and the amount of future income taxes will have to be adjusted.</p> <p>Refundable taxes will no longer be recognized for unrealized appreciations.</p> <p>Amounts involved are currently being assessed, but they are not expected to have a material impact on net assets, net earnings and net earnings per share.</p>

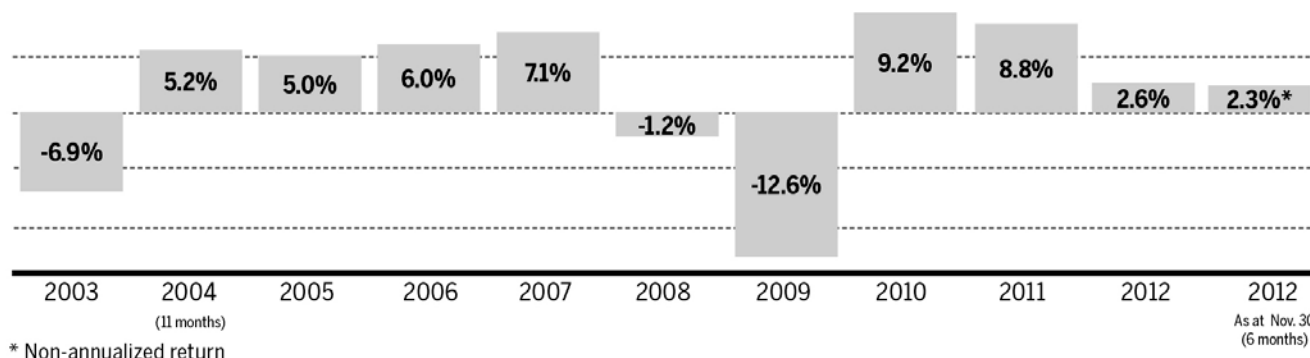
The Fonds believes that the IFRS conversion will not require major changes to its information systems, its data processing procedures and its various activities. The Fonds also believes that its current internal control over financial reporting and disclosure controls and procedures will be sufficient and adequate for adopting IFRS and meeting their related disclosure requirements.

PAST PERFORMANCE

This section presents the past performance of the Fonds. The past performance of the Fonds does not necessarily indicate how it will perform in the future.

YEAR-BY-YEAR RETURNS OF THE FONDS

The following chart shows the Fonds' annual performance and illustrates how the Fonds' performance has changed from year to year for the last ten financial years and the six-month period ended November 30, 2012.



The annual performance of the Fonds is calculated by dividing net earnings (net loss) per share for the financial year by the price per share at the beginning of the financial year. Such performance sometimes differs from the annual compound return to the shareholder because the annual performance of the Fonds is calculated taking into account share issuances and redemptions made during the year, which have a dilutive or accretive effect on net earnings (net loss) per share, as the case may be. The non-annualized performance for the six-month period ended November 30, 2012 is calculated by dividing net earnings per share for the six-month period by the price per share at the beginning of the six-month period.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER

At the current value of \$27.20 per share, a shareholder who has invested at the beginning of each of the periods indicated below earns the following annual compound returns:

10 years	5 years	3 years	1 year
3.0%	1.4%	5.0%	4.7%

The annual compound return to the shareholder is calculated by taking into account the annualized change in the price per share over the periods indicated. This return sometimes differs from the annual performance of the Fonds since, as explained above, it does not take into account the dilutive or accretive effect of share issuances and redemptions made during the year.

Since the inception of the Fonds, the annual compound return to the shareholder has been 3.6%.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)

Let's take, for example, a shareholder who has invested an equal amount each year through payroll deduction. Including the Québec and federal labour-sponsored funds tax credits (each amounting to 15%) that this shareholder has received, at the current value of \$27.20 per share, this shareholder earned an annual compound return of 13.4% and 10.0% for a 7-year and 10-year period, respectively. In addition to this return, the shareholder can receive additional tax benefits if he holds his Fonds shares in an RRSP.

SUMMARY OF INVESTMENT PORTFOLIO

As at November 30, 2012, the Fonds' assets under management were broken down as follows:

Asset classes	% of net assets
Development capital investments	
Private securities	32.0
Specialized funds	12.5
Listed securities	8.7
	53.2
Other investments	
Cash and money market	3.6
Bonds	22.9
Sector-based shares	16.0
Hedge funds ⁶	2.6
High-dividend shares ⁷	1.2
International infrastructure funds	0.8
	47.1

As at November 30, 2012, the issuers of the top 25 positions held by the Fonds, of which 16 are part of the development capital investments portfolio and 9 are part of the other investments portfolio, are as follows:

Issuers	% of net assets
Development capital investments (16 issuers) *	32.4
Other investments (9 issuers)**	16.7
	49.1

* The 16 issuers representing, as a group, 32.4% of the Fonds' net assets are:

Atrium Innovations inc.
Camoplast Solideal inc.
Cogeco Câble inc.
Corporation Financière L'Excellence ltée
Entreprises publiques québécoises à faible capitalisation ⁸
Fonds immobilier de solidarité FTQ inc. ⁸
Fonds immobilier de solidarité FTQ I, s.e.c. ⁸
Fonds immobilier de solidarité FTQ II, s.e.c. ⁸
Gestion TFI inc.
Metro inc.
Société de gestion d'actifs forestiers Solifor, société en commandite ⁸
SSQ Financial Group ⁹
TMX Group Limited
Transcontinental Inc.
Trencap s.e.c.
VC, société en commandite

** The 9 issuers representing, as a group, 16.7% of the Fonds' net assets are:

Province of Ontario	4.7%
Financement-Québec	2.8%
Province of Québec	2.6%
Government of Canada	2.2%
Laurentian Bank of Canada	1.2%
Canadian Imperial Bank of Commerce	0.8%
Hydro-Québec	0.8%
The Bank of Nova Scotia	0.8%
Q-BLK Strategic Partners, Inc.	0.8%

This summary of investment portfolio may change during the six-month period due to ongoing portfolio transactions of the Fonds.

⁶ Hedge funds are included in the absolute return strategies portfolio.

⁷ High-dividend shares are included in the high-income portfolio.

⁸ Despite their relatively important weight in the overall portfolio of the Fonds, these issuers do not constitute a significant concentration risk given the large number of investees.

⁹ Includes all of the Fonds' investments in SSQ, Life Insurance Company Inc. and its subsidiaries, SSQ Insurance Company Inc. and SSQ General Insurance Company Inc.

CONTRIBUTION TO QUÉBEC'S ECONOMIC DEVELOPMENT

In keeping with its mission, the Fonds made investments over the six-month period that contributed to creating, maintaining or saving quality jobs in different sectors of the Québec economy. In the current, still uncertain economic conditions, the Fonds continues to play an active role in the development and growth of Québec companies. As such, during the six-month period, the Fonds invested \$204 million, on a commitment basis, to support Québec entrepreneurs in their development projects.

In particular, the Fonds made a \$75 million commitment (announced in the prior six-month period) to the new Fonds Valorisation Bois. This investment fund for high value-added wood transformation will help businesses in the forestry industry move to new niches such as green construction, green energy and green chemicals, which are all supported by the forestry industry.

In addition, the Fonds made a \$4 million commitment to Groupe QuébéComm, a leader in the Québec entertainment industry, to help it pursue its development plan. In partnership with investors from other parts of the world, the Fonds participated in the financing of a project in Québec related to the lead product of Thrasos Therapeutics, a private, clinical stage, biotherapeutics company focused on the treatment of kidney diseases. The Fonds made a \$7.1 million commitment to this company during the six-month period.

OUTLOOK

ECONOMIC AND FINANCIAL OUTLOOK

World and United States

The challenging economic conditions in Europe continued to be front and centre over the last several months (see the "Economic conditions" section); we will have to wait and see if the bond purchase program implemented by the European Central Bank to buy unlimited sovereign debt – which, initially, seems to have eased the fears of collapse of the Eurozone – will give enough time to policymakers to put in place the structural reforms that are needed to resolve the crisis. The recession prevailing in several Eurozone countries for some time now is expected to last for several months, which is not reassuring for commercial partners of these countries.

The threat of the "fiscal cliff" in the United States seems to drive up uncertainty, which is causing companies to reduce investments and hiring. Economic growth should therefore remain weak for the coming months for our southern neighbours. To offset this situation, the U.S. Federal Reserve (the Fed) launched a third quantitative easing campaign during which, unlike the previous campaigns, it will not limit the quantity of government bonds it will buy back. The Fed thus hopes that keeping interest rates low will help support the economy while waiting for the government to adopt fiscal measures to address structural problems. While employment numbers continue to improve, it is not enough to push the unemployment rate down to hoped-for levels. Given this, the Fed decided once again to extend the period during which it wants to maintain its key interest rate at the current level (0.25%) from mid-2014 to mid-2015.

Canada and Québec

Many economists believe that Canadian economic growth should continue at a moderate pace in the coming quarters, despite the reduction in government spending as a result of the fight against the deficit, the tightening of credit conditions (resulting from the new mortgage lending standards), the reduction in consumer household spending (which shows prudence, given the high debt levels) and the deterioration of net exports (given the weak U.S. and global demand). In light of the challenges the European economy faces and the uncertainty that still plagues the U.S. economy, the Bank of Canada, like the Fed, continues to send to the market the message that the discount rate (currently at 1%) will not be raised in the near future. Given current economic conditions, we forecast that over the next few months the Canadian dollar will fluctuate between \$US0.95 and \$US1.08, while interest rates on Canadian 10-year and 30-year bonds should vary in a range not exceeding plus or minus 50 basis points.

In Québec, we are still waiting for consumer spending to rebound. In addition, fragile global economic conditions and the strength of the Canadian dollar weigh heavily on exports, which prevent the trade deficit from declining. Lastly, the residential market seems to be stalling, representing another uncertainty factor. As such, growth in Québec's GDP in the coming months should be relatively weak.

THE SAVINGS MARKET AND RRSP

The economic upheaval of recent years has prompted Quebecers to become increasingly aware of how fragile employment is and how high household debt is, but the impact this should have on savings is still slow to materialize. In fact, a survey conducted in spring 2012 by SOM (and published last September by Question retraite, an organization that encourages young people to begin saving early) revealed that Quebecers are lacking interest in savings, as 58% of them agree that savings ranks second in their financial priorities, after satisfying their consumption needs.

This survey also showed that consumer debt is also an impediment to savings. The vast majority of Quebecers (87%) are indebted and have either a mortgage (57%), a line of credit (42%), a car loan (40%), an unpaid credit card balance (38%), a personal loan (14%) or a student loan (7%). This explains why the RRSP contribution rate was only 62% for the 2011 tax year, which is a 3% decrease compared to 2010, when the rate improved by three percentage points over 2009. For young adults, several factors, including age, the length of time to retirement and debt levels, explain why savings levels are even lower; only 53% of Quebecers aged 25 to 34 own an RRSP, and in three-quarters of cases, have less than \$20,000 in it.

Given this, making Quebecers aware of savings and encouraging them to save, which is an integral part of the Fonds' mission, remains at the centre of our priorities, especially for young adults. On this point, we believe the communication strategy that we designed specifically for them as well as the involvement of our network of over 2,000 local representatives, our return and the tax credits our shares give rise to, are all features that will contribute, once again in 2012-2013, to the Fonds shares keeping their advantageous position among all the retirement savings products available in the market.

FONDS OUTLOOK

Since the issuance of the last annual MD&A, there have been no material changes to the Fonds outlook.

RISK MANAGEMENT

Sound risk management practices are vital to the success of the Fonds de solidarité FTQ. We manage our risks within a framework taking into account the nature of our activities and the risks we can reasonably assume considering the desired return/risk ratio and shareholder expectations. To that end, we capitalize on a structured process to determine, measure and control the significant risks with which we must contend.

Notice to readers: *The following four paragraphs and the sections on market risk, credit and counterparty risk and liquidity risk form an integral part of the financial statements on which an unmodified opinion was expressed in an independent auditors' report issued on December 21, 2012.*

The Fonds manages all its financial instruments in an integrated, comprehensive manner in accordance with the standards set out in the *Integrated Financial Assets Management Policy* adopted by the Board of Directors. This policy covers both development capital investments and other investments. It sets goals, guidelines and several limits so that the Fonds' management can ensure that the target return/risk profile is reached. The Fonds uses derivative financial instruments in particular to safeguard the value of its assets, to facilitate the management of its portfolios, to modify its asset allocation without increasing or decreasing the amounts managed by internal and external specialist and to improve its returns within allocated risk limits.

During the six-month period ended November 30, 2012, the risk management approach continued to evolve, after the Fonds undertook, a little over two years ago, a process to implement an integrated risk management framework. The objective of this process was essentially to provide the Fonds' management with an overall vision of all risks to ensure that they are managed in accordance with their degree of importance. The production of an integrated risk profile allowed prioritizing the key financial and non-financial risks to which the Fonds is exposed, before and after considering the effectiveness of the controls implemented to mitigate the Fonds' exposure to these risks. A mitigation strategy was developed for some of these risks, and action plans were set up and deployed. In addition, the Fonds produces on a quarterly basis a risk scorecard. This scorecard, which is integrated into its corporate scorecard, allows management to monitor the evolution of risks with respect to its business objectives and the organization's strategies.

The integrated risk management approach was also designed to improve risk governance, monitoring and reporting. To this end, the Board of Directors of the Fonds adopted, in May 2012, the *Integrated Risk Management Policy*, a new policy that sets out the Fonds' requirements in that regard while specifying the responsibilities of the main stakeholders involved. This new policy has been effective since June 1, 2012. Its implementation started during the six-month period ended November 30, 2012 and will continue in the next six-month period.

In the normal course of business, the Fonds is exposed to various risks; the principal ones are presented below.

MARKET RISK

Market risk, which is inherent to the Fonds' participation in financial markets, represents the risk of losses in value arising from fluctuations in interest rates, exchange rates and prices of listed financial instruments. More specifically, this risk varies with the financial markets' conditions and certain parameters of these markets, such as volatility, that may lower the value of the Fonds' financial assets and thus have a negative impact on its Balance Sheet and Statement of Operations. Difficult economic or financial conditions may thus have a negative impact on the value of the Fonds' shares.

The Fonds manages market risk by allocating its financial assets across several classes. In addition, it invests in various industries (government and government agencies, financial institutions, technology, manufacturing and primary, services and tourism, regional or local funds and real estate) and geographic areas, within the limits allowed by its Incorporation Act.

The Fonds' financial assets are especially sensitive to listed share prices and fluctuations in bond interest rates (Canada bond rates and credit spreads). The Fonds' financial assets are also sensitive to exchange rate fluctuations, but since most of its transactions are in Canadian dollars, the Fonds' direct exposure to currency risk is relatively low. Furthermore, common hedging mechanisms such as foreign currency forward contracts are generally used for other investments in a foreign currency.

During the 2009-2010 financial year, in response to the significant appreciation of the Canadian dollar, the Fonds decided to gradually reduce, over the following six-month periods, from 100% to 50% the hedge of its sector-based shares portfolio against currency risk. The Fonds continues to work towards this objective despite a temporary stop in the reduction of the hedge level during the last six-month periods. The sector-based shares hedging ratio was 52.5% as at November 30, 2012, which is the same level as at May 31, 2012.

For the portion of the bond portfolio that is internally managed, it had been agreed in April 2012 to eliminate hedges against an increase in interest rates as rate markets would provide a window for action. During the six-month period, the hedge level for this portion of the portfolio gradually moved towards this objective: it was 7.9% as at November 30, 2012 compared to 16.5% as at May 31, 2012.

The Fonds performs sensitivity analyses and simulations to inform senior management of material levels of market risk exposure. It uses derivative financial instruments to reduce its market risk exposure and safeguard the value of its assets. The following table presents a sensitivity analysis for each of the three market risk categories to which the Fonds' financial assets are exposed, namely changes in interest rates, listed share prices and exchange rates. These analyses reflect the changes made to existing hedging levels aimed at reducing the Fonds' exposure to interest rate risk and currency risk.

SENSITIVITY OF THE FONDS' RESULTS TO MARKET RISK

(in millions of dollars)	November 30, 2012	May 31, 2012
Change in bond interest rates*		
1% increase in bond interest rates	(146)	(134)
1% decrease in bond interest rates	146	134
Change in listed share prices**		
10% increase in listed share prices	223	215
10% decrease in listed share prices	(223)	(215)
Change in exchange rates***		
10% appreciation of the Canadian dollar	(76)	(77)
10% depreciation of the Canadian dollar	76	77

* This analysis is performed on bonds held by the Fonds presented under Other investments in the financial statements. In this analysis, the impact on results takes into account the use of interest rate forward and futures contracts aimed at safeguarding assets.

** This analysis is performed on listed shares held by the Fonds presented under Development capital investments and Other investments in the financial statements. In this analysis, the impact on results takes into account the use of stock index futures.

*** This analysis is performed on securities denominated in foreign currencies held by the Fonds presented under Development capital investments and Other investments in the financial statements. In this analysis, the impact on results takes into account the use of foreign currency forward contracts.

The value of unlisted financial instruments in the development capital investments portfolio is established using approved and accepted valuation techniques. These techniques are based on a set of assumptions that take into account market conditions such as exchange rates, economic growth, credit spreads, as at the valuation date. Since the assumptions used are highly interrelated, a sensitivity analysis that isolates the impact of one of these variables on the unlisted securities portfolio is not considered to fairly represent the sensitivity of the results. In addition, the fair value of certain financial instruments, in particular other investments and listed securities in the development capital investments portfolio, is determined based on external information and, consequently, no other reasonably possible assumption can be applied to the valuation techniques. Despite this, management assessed the situation for loans, bonds and advances as well as for unlisted securities valued using the capitalization of cash flows method, and determined that using possible alternative assumptions would not result in significantly different fair values.

CREDIT AND COUNTERPARTY RISK

The Fonds' exposure to credit risk stems mainly from its mission-driven development capital investments, which are generally unsecured. Its other investment activities generally entail less of this risk since the counterparties concerned are typically more financially solid (governments, banks, etc.).

Credit risk is the potential for loss due to the failure of a partner company (financial instruments presented under Development capital investments), issuer or counterparty in a transaction (financial instruments presented under Other investments) to honour its contractual obligations or due to a degradation of its financial position. The Fonds manages this risk through several means, including a due diligence process to ensure that the credit risk level is acceptable.

The Fonds maintains a sound diversification of its assets through the *Integrated Financial Assets Management Policy*. Compliance with this policy therefore enables the management of concentration risk associated with the exposure to an issuer or group of issuers with common characteristics (industries, credit ratings, etc.).

EXPOSURE TO CREDIT AND COUNTERPARTY RISK

(fair value as a percentage of net assets)	November 30, 2012	May 31, 2012
Weight of the five largest investments (Development capital investments)	20.2*	19.7*
Weight to the five largest issuers or counterparty (Other investments)	13.5**	13.8**

* The portion attributable to investments that do not constitute a significant concentration risk given their large number of investees represented 10.0% as at November 30, 2012 (9.7% as at May 31, 2012).

** The portion attributable to securities issued or guaranteed by the governments of Québec, Ontario or Canada represented 12.3% as at November 30, 2012 (12.7% as at May 31, 2012).

The summary of investment portfolio presented previously also discloses relevant information on the credit and counterparty risk concentration level.

For the development capital investments portfolio, the Fonds approves on an annual basis targets by industries, in keeping with its internal structure. These targets are set using risk allocation mechanism. It should be noted that the actual results may however differ from the industry targets determined based on the investment opportunities on the market. Based on an optimal risk level defined by the Fonds for this portfolio as a whole by taking into account its mission, risk allocation mechanism facilitates a more effective monitoring and control of the portfolio profile and sector allocation by risk level. The return/risk balance of this portfolio is achieved through a sector-based risk allocation mechanism that takes into account the higher risk of our investments in certain sectors.

The Fonds regularly re-examines the status of its development capital investments to ensure that they are adequately classified in one of the following three categories: compliant with internal criteria, under watch or in turnaround. To deal with the more difficult situations, an internal committee closely monitors investments that entail greater credit risk.

CLASSIFICATION OF THE DEVELOPMENT CAPITAL INVESTMENTS PORTFOLIO

(fair value in millions of dollars)	November 30, 2012	May 31, 2012
Compliant with internal criteria	4,759	4,562
Under watch	331	334
In turnaround	15	23
	5,105	4,919

For the other investments portfolio, issuer and counterparty ratings and compliance with exposure limits by borrower or counterparty contribute to the sound management of the credit and counterparty risk of the portfolio and to the diversification of assets. These criteria are set based on the risks specific to each asset class and reduce the risk that our results will be materially affected in the event of a payment default. As at November 30, 2012, the weighted average credit rating of bonds was AA- as it was as at May 31, 2012.

CLASSIFICATION OF BONDS INCLUDED IN THE OTHER INVESTMENTS PORTFOLIO*

(fair value in millions of dollars)	November 30, 2012	May 31, 2012
AAA	289	342
AA	747	801
A	882	796
BBB	207	211
Other	1	4
	2,126	2,154

* Presented using the Standard and Poor's rating scale.

LIQUIDITY RISK

The Fonds must make disbursements on a daily basis – when it redeems shares held by shareholders, disburses amounts it committed to invest in partner companies, reimburses notes payable and pays expenses. It is worth noting that the Fonds is required to redeem shares only in the circumstances set out in its Incorporation Act, or to purchase them by agreement in exceptional situations provided under a policy adopted for such purpose by the Board of Directors and approved by the Minister of Finance of Québec.

The Fonds must be able to obtain the liquidity required to meet its commitments. Liquidity risk is therefore related to the potential for loss due to its inability to meet such commitments. In certain cases, securities acquired on the market can be subject to resale restrictions, thus potentially reducing their liquidity.

The Fonds' Incorporation Act provides that part of the financial assets of the Fonds may be invested in marketable securities on organized markets, such as stock and bond markets, so it can easily obtain cash. The Fonds also has access to bank credit facilities for additional liquidities.

As at November 30, 2012, the ratio of liquid financial assets¹⁰ as a percentage of assets under management was 52.5% (51.5% as at May 31, 2012), demonstrating, in management's opinion, that the Fonds has the required liquidity to fulfill all its obligations and commitments, even under potential scenarios that would be unfavourable to it.

OPERATIONAL RISK

Inherent to all the Fonds' activities, operational risk is the risk of sustaining losses as a result of the inadequacy or failure of certain processes or systems in place or due to human factors or external events. This risk also includes legal risk. Since the issuance of the last annual MD&A, there have been no material changes in the management of operational risk.

OTHER RISKS

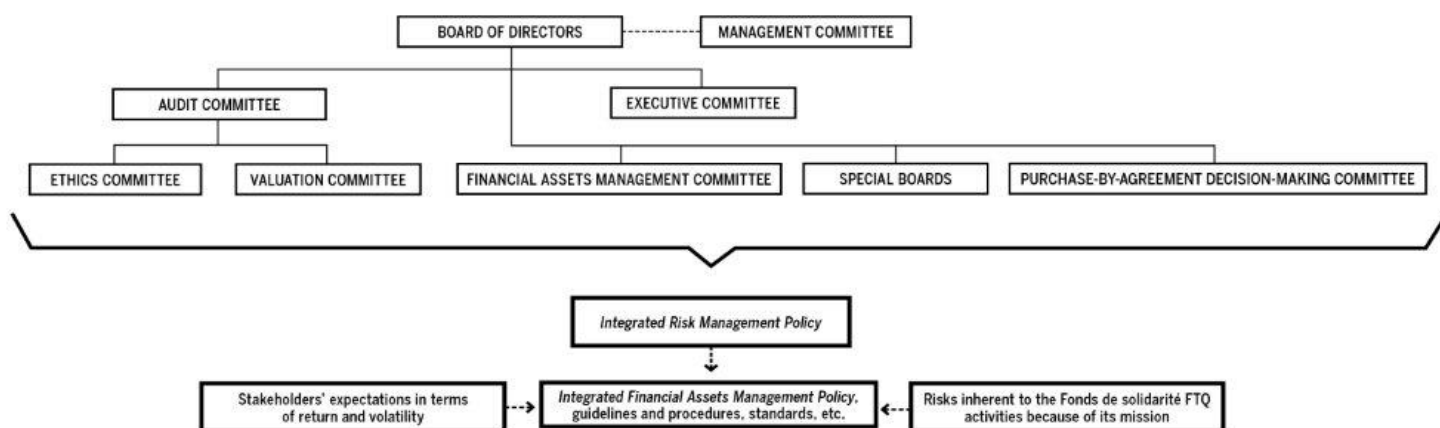
The Fonds is also exposed to other risks such as strategic and reputation risks, which could result in negative financial consequences. Since the issuance of the last annual MD&A, there have been no material changes in the management of these risks.

¹⁰ Liquid financial assets are comprised of fixed-income securities (cash, bonds and money market securities), listed shares of the other investments portfolio and certain listed shares of the development capital investments portfolio.

GOVERNANCE

RISK GOVERNANCE

The Management Committee, comprised of the President and CEO and executives, is responsible for the global management of the Fonds de solidarité FTQ's operations. Because risk governance is an essential part of integrated financial assets management, the Fonds has put in place a management framework to ensure that risk management and control strategies and resulting operational decisions take the established level of acceptable risk into account. This management framework is as follows:



The Fonds' risk governance structure is built upon a series of policies approved by the Board of Directors. The Fonds regularly reassesses policies, standards, guidelines, and procedures to incorporate the best possible practices. It should be noted that the functions of Chairman of the Board and President and CEO are separate.

No material changes have been made to the roles and responsibilities of the key governing bodies of the Fonds (Board of Directors and other committees), the *Integrated Risk Management Policy*, the *Integrated Financial Assets Management Policy* and the management framework that governs the procedure for valuing development capital investments since the issuance of our last annual MD&A.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

The Fonds has had for several years a financial compliance framework program commonly known as *Confor*. While not required to apply *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, the Fonds has decided to base its work upon the principles stated in this rule, thereby demonstrating its willingness to respect best practices in financial governance.

Management is responsible for designing and maintaining internal control over financial reporting as well as disclosure controls and procedures. These controls are developed to provide reasonable assurance that the financial information is reliable and that the financial statements are prepared in accordance with Canadian generally accepted accounting principles. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect certain misstatements on a timely basis. Management must periodically evaluate control design and effectiveness. The design of internal control over financial reporting has been evaluated using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, a recognized financial governance framework.

During the six-month period, no change has occurred that has materially affected, or is reasonably likely to materially affect, internal controls.