FONDS de solidarité FTQ

INVESTING IN
A BETTER SOCIETY.

CONSOLIDATED
FINANCIAL STATEMENTS

AS AT MAY 31, 2021

INDEPENDENT AUDITORS' REPORT

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

Opinion
We have audited the consolidated financial statements of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the « Fonds »), which comprise the consolidated statement of financial position as at May 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated changes in net assets and the consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fonds as at May 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fonds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information
Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis, excluding the information in the risk management section which is an integral part of the financial statements.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fonds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fonds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fonds' financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fonds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fonds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fonds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fonds to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Signed,
Deloitte LLP[1]
[1]CPA auditor, CA, public accountancy permit No. A116933

Signed,
Raymond Chabot Grant Thornton LLP[2]
[2] CPA auditor, CA, public accountancy permit No. A120795

Montréal, June 23, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions of Canadian dollars, except net assets per share)	Notes	May 31, 2021	May 31, 2020
ASSETS			
Cash		224	206
Financial instruments related to securities sold under repurchase agreements		466	624
Accounts receivable	5	402	523
Other investments	6	7,550	6,024
Development capital investments	7	10,003	9,151
Other assets	11	174	145
		18,819	16,673
LIABILITIES			
Notes	12	608	694
Securities sold under repurchase agreements		466	624
Accounts payable	14	420	313
Other liabilities	15	139	1,248
		1,633	2,879
NET ASSETS	16	17,186	13,794
NET ASSETS PER SHARE CLASS			
Class A		17,134	13,774
Class C		52	20
NET ASSETS PER CLASS A AND CLASS C SHARE		53.21	44.24

Commitments and contingencies (Notes 6, 7 and 18)

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

On behalf of the Board of Directors,

Signed "Claude Séguin"

Claude Séguin, Director

Signed "Janie C. Béïque"

Janie C. Béïque, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED MAY 31

(in millions of Canadian dollars, except net income per share)	Notes	2021	2020
REVENUES			
Interest		164	194
Dividends and distributions		396	355
Fee and other income		12	14
		572	563
Gains (losses) on development capital investments, other investments and investment property			
Realized		669	354
Unrealized		1,889	(417)
Transaction costs		(3)	(2)
		2,555	(65)
Interest on notes		(26)	(29)
		3,101	469
TOTAL OPERATING EXPENSES	19 and 24	249	227
INCOME BEFORE INCOME TAXES		2,852	242
Income taxes	20	5	23
NET INCOME		2,847	219
ITEM OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO NET INCOME			
Remeasurement of the net defined benefit liability, net of income taxes	21	42	11
COMPREHENSIVE INCOME		2,889	230
Supplemental information			
Net income per share class			
Class A		2,840	219
Class C		7	–
Net income per Class A and Class C share	16	8.99	0.61

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED MAY 31

(in millions of Canadian dollars)	Share capital				Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total (Note 16)
	Class A shares			Class C				
	Series 1	Series 2	Total	Series 1				
NET ASSETS AS AT MAY 31, 2019	10,326	107	10,433		642	4,563	(11)	15,627
Impact of issuance of Class C shares[1]	5,135	59	5,194		(642)	(4,563)	11	
	15,461	166	15,627					15,627
Net income	216	3	219	–				219
Other comprehensive income	11	–	11	–				11
Share issues	947	14	961	20				981
Share redemptions	(1,914)	(41)	(1,955)	–				(1,955)
Change in redemptions in process	(1,089)		(1,089)					(1,089)
NET ASSETS AS AT MAY 31, 2020	**13,632**	**142**	**13,774**	**20**				**13,794**
Net income	**2,812**	**28**	**2,840**	**7**				**2,847**
Other comprehensive income	**42**	**–**	**42**	**–**				**42**
Share issues	**1,146**	**16**	**1,162**	**25**				**1,187**
Share redemptions	**(1,758)**	**(22)**	**(1,780)**	**–**				**(1,780)**
Change in redemptions in process	**1,096**		**1,096**					**1,096**
NET ASSETS AS AT MAY 31, 2021	**16,970**	**164**	**17,134**	**52**				**17,186**

1. The issuance of a new class of shares (the Class C shares), on June 4, 2019, resulted in the reclassification of issued and outstanding shares (the Class A shares) from equity instruments to financial liabilities (see Note 2. Significant accounting policies – Classification of shares). Although this reclassification had no impact on the Consolidated Statements of Financial Position (as issued and outstanding shares are still presented under Net Assets), it modified the presentation of the Consolidated Statements of Changes in Net Assets. As a result of this reclassification, the financial reporting principles require that, from that time, all components of net assets (contributed surplus, retained earnings, accumulated other comprehensive income) be allocated to the various classes and series of outstanding shares. The allocation of the components of net assets until June 3, 2019 is presented under the line "Impact of issuance of Class C shares". The components of net assets are detailed in Note 16.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31

(in millions of Canadian dollars)	2021	2020
OPERATING ACTIVITIES		
Net income	2,847	219
Non-cash items		
Stock dividends and distributions in kind	(53)	(2)
Interest capitalized on development capital investments	(8)	(5)
Interest capitalized on notes	26	29
Amortization of premiums and discounts	11	9
(Gains) losses realized and unrealized on development capital investments, other investments and investment property	(2,558)	63
Post-employment benefits	16	17
Share-based compensation	2	1
Depreciation of property and equipment and amortization of intangible assets	16	11
Deferred income taxes	(7)	5
	292	347
Changes in non-cash items		
Accounts receivable	13	(50)
Income taxes	20	(109)
Refundable taxes on hand	(14)	95
Accounts payable	22	(14)
Other	(2)	1
	331	270
Acquisition of development capital investments	(722)	(1,172)
Proceeds of disposal of development capital investments	1,932	501
Acquisition of other investments	(6,769)	(8,132)
Proceeds of disposal of other investments	5,981	9,834
Increase in notes	328	405
Repayment of notes	(440)	(500)
	641	1,206
FINANCING ACTIVITIES		
Shares issued	1,185	980
Shares redeemed	(1,782)	(1,960)
	(597)	(980)
INVESTING ACTIVITIES		
Acquisition of property and equipment and intangible assets	(26)	(29)
INCREASE (DECREASE) IN CASH	18	197
CASH AT BEGINNING	206	9
CASH AT END	224	206
Supplemental information (amounts included in operating activities)		
Interest received	177	195
Dividends and distributions received	349	344
Income taxes paid (recovered)	(4)	32

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE FONDS

STATUTES AND OBJECTIVES OF THE FONDS

The Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the "Fonds"), incorporated by an Act of the Québec National Assembly, is a joint-stock company whose principal office is located at 545 Crémazie Boulevard East, Suite 200, Montréal, Québec, Canada and whose mission is:

Create, maintain or protect jobs

Invest in companies impacting the Québec economy and offer them services to further their development and create, maintain or protect jobs.

Train workers

Promote economic training for workers so they can increase their influence on the economic development of Québec.

Develop the Québec economy

Stimulate the Québec economy through strategic investments that benefit both Québec workers and companies alike.

Prepare for retirement

Make workers aware of the need to save for retirement and encourage them to do so, as well as encourage them to participate in the development of the economy by purchasing Fonds shares.

To this end, the Fonds endeavours to concentrate most of its development capital investments in unsecured investments, mainly in small and medium-sized enterprises ("SMEs") located in Québec. As a general rule, the Fonds will take a minority interest in the projects in which it invests.

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been approved by the Board of Directors of the Fonds on June 23, 2021.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a fair value basis, except for property and equipment and intangible assets, which are measured on the historical cost basis, as well as certain financial instruments, as mentioned in the "Financial instruments - Classification" section of this note.

These consolidated financial statements reflect the financial position and results of operations of the Fonds and its wholly-owned subsidiary FlexiFonds de solidarité FTQ inc. ("FlexiFonds"), on a consolidated basis.

INVESTMENT ENTITY

The Fonds meets the definition of investment entity set out in IFRS 10 *Consolidated Financial Statements*, as it meets the following conditions:

- It obtains capital from many investors for the purpose of managing their savings;
- It commits to its investors that the purpose of its investments activities is to generate a return and provide investment income, in accordance with its mission; and
- It measures and evaluates the performance of its investments on a fair value basis.

Consequently, the Fonds does not consolidate its subsidiaries, except for its FlexiFonds subsidiary, whose main activity is to provide to the Fonds distribution services for FlexiFonds funds' units and which is consolidated in accordance with the requirements of IFRS 10.

SUBSIDIARIES AND ASSOCIATES

Except for the FlexiFonds subsidiary, investments in subsidiaries and associates are recognized at fair value through profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PRESENTATION

The Fonds presents its Consolidated Statements of Financial Position in a decreasing order of liquidity. All the assets and liabilities of the Fonds are non-current assets and liabilities, except for the following current items: Cash, Financial instruments related to securities sold under repurchase agreements, Accounts receivable (except as mentioned under the table in Note 5), Refundable taxes on hand, Income taxes included in Other assets or Other liabilities, as appropriate, Notes, Securities sold under repurchase agreements, Accounts payable and Share redemptions payable included in Other liabilities. The current portion of bonds and money market instruments included in Other investments is presented in Note 6, while the current portion of loans, bonds and advances included in Development capital investments is presented in Note 7.

FINANCIAL INSTRUMENTS – RECOGNITION AND DERECOGNITION

Financial instruments are recognized at fair value at the transaction date, when the Fonds becomes party to the contractual provisions of the instrument. The cost presented for development capital investments and other investments corresponds to the amount paid and is determined based on average cost, excluding transaction costs. Transaction costs are recognized in net income when incurred.

A financial asset is derecognized when the Fonds no longer has the contractual rights to the cash flows from this asset and when it has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when the obligation is extinguished, which is when the obligation is discharged or cancelled or expires.

FINANCIAL INSTRUMENTS – CLASSIFICATION

Financial assets and liabilities at fair value through profit or loss (FVTPL)

As they are part of a portfolio managed in accordance with a documented financial assets integrated management strategy whose performance is evaluated on a fair value basis and for which information is provided internally on that basis to the Fonds' key management personnel, the following financial instruments are classified as at FVTPL: Development capital investments, Other investments, Accounts receivable relating to development capital investments and other investments sold, Accrued dividends and interest, Loans included in other accounts receivable, Cash, Financial instruments related to securities sold under repurchase agreements, Accounts payable relating to development capital investments and other investments purchased, Derivative financial instruments and Securities sold under repurchase agreements.

Funds committed but not disbursed and guarantees and suretyships are designated as at FVTPL, and any resulting gain (loss) is recognized in net income.

The Fonds' obligation for net assets is a financial liability and is measured at redemption value, which approximates the fair value as at the reporting date.

Financial assets and liabilities at amortized cost

Other items included in accounts receivable, notes as well as accrued expenses and other included in accounts payable are measured at amortized cost, which approximates their fair value given their nature and short-term maturity.

FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

Fair value of assets and liabilities traded on active markets

To determine the fair value of financial assets and liabilities that are quoted in an active market, such as listed shares, bonds, money market instruments and listed derivative financial instruments, the Fonds uses the price within the bid-ask spread that is most representative of fair value, given the relevant facts and circumstances, at the reporting date.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT (CONTINUED)

Fair value of assets and liabilities that are not traded on active markets

The fair value of financial assets and liabilities that are not traded on active markets (including unlisted derivative financial instruments) is determined using valuation techniques selected based on certain specified criteria and market conditions prevailing at each reporting date. The valuation techniques used are based on valuation principles derived from the guidelines that are generally used in the industry by business valuation professionals. These valuation principles are approved every six months by the Fonds' Audit Committee. The valuation technique used for a financial instrument is generally the same from one period to the next, except when a change in valuation technique results in a more accurate estimate of fair value.

Unlisted shares and units

When a yield method is used, the fair value of unlisted shares is mainly determined using the capitalized cash flow technique. The two main variables used in this technique are maintainable cash flows and the capitalization rate. To determine maintainable cash flows, recurring cash flows are estimated based on the entity's historical results and/or financial forecasts. A weighting factor is applied to each of the cash flows used to reflect its probability of occurrence. The capitalization rate used to capitalize maintainable cash flows reflects how the investee could finance its operations and the risks associated with the materialization of these maintainable cash flows.

When the price of a recent transaction negotiated between unrelated parties on an arm's-length basis is available, this valuation technique is used under certain conditions. It may also be appropriate to use a valuation technique based on a bid from a third party. Using judgment is necessary to determine whether the price in such recent transaction or bid represents the best evidence of fair value at the reporting date.

The period during which referring to a past transaction or bid is deemed appropriate depends on the circumstances specific to each situation.

In certain circumstances or depending on the nature of operations, the future earning potential is better reflected by the value of the assets, and the adjusted net asset method is used. This method is also used to determine the fair value of unlisted investment fund units held. In such case, this method entails using the share of all assets and liabilities appearing on the balance sheet of the investee at their fair value and adjusting it as necessary. The main adjustments made are related to the fair value of the assets and liabilities, new information available and significant events that occurred between the investee's reporting date and the Fonds' reporting date.

The fair value of certain unlisted units is determined using the price established by their respective manager.

Loans and advances

The fair value of loans and advances is mainly determined by discounting expected future cash flows using a discount rate that reflects the return that the market would require given the credit risk of the investee.

Guarantees and suretyships

When it is likely that the Fonds will have to disburse an amount on a guarantee or a suretyship it granted, a loss equivalent to the estimated amount to be assumed is recognized as a liability.

Gains (losses) on funds committed but not disbursed

The fair value of funds committed but not disbursed is determined using the techniques that will be used to measure the financial instrument to be issued as a result of the execution of the commitment, taking into account the probabilities that the Fonds will have to disburse the committed funds and the amount that would be disbursed. The probable and expected execution of funds committed but not disbursed under conditions that are unfavourable to the Fonds at measurement time will result in a loss that will be recognized as a liability and, under conditions that are favourable to the Fonds, will result in a gain that will be recognized as an asset.

Derivative financial instruments

The fair value of unlisted derivative financial instruments is determined using appropriate valuation techniques, including discounting future cash flows at the current rate of return.

Accounts receivable relating to development capital investments and other investments sold

The fair value of accounts receivable relating to development capital investments sold that are not traded on active markets is determined by discounting contractual cash flows. Generally, the estimated amounts to be received and timing of their collection depend on future events or the satisfaction of certain conditions.

Accrued dividends and interest

Accrued dividends and interest are recognized at the amounts that the Fonds expects to receive at the reporting date, which approximates their fair value given their short-term maturity.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SECURITIES LENDING AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

To generate additional revenues, the Fonds participates in the securities lending program put in place by its depositary for securities of which it is the custodian. Under this program, the Fonds can enter into securities lending transactions, as well as short-term sales of securities with a simultaneous commitment to repurchase them at a specified price and date. Securities lent or sold under repurchase agreements are not derecognized in the Consolidated Statements of Financial Position as substantially all the risks and benefits inherent to ownership are retained by the Fonds. Repurchase agreements are recognized as secured borrowing transactions and are recorded at the repurchase price determined by the commitment, which approximates their fair value. The revenues resulting from the Fonds' participation in this program are recorded in net income under Fee and other income.

INVESTMENT PROPERTY

Until May 31, 2020, investment property was property held by the Fonds for renting and value appreciation purposes. The Fonds presented its investment property using the fair value model, and any change in fair value was recognized in net income.

At the beginning of the year ended May 31, 2021, the property no longer met the criteria to be considered as investment property and was transferred into the Buildings category, in property and equipment, at its fair value at the date of transfer.

CASH

Cash includes bank accounts used in operating, processing share issuance and redemption transactions as well as managing development capital investments and other investments.

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are stated at cost less any accumulated depreciation or amortization and accumulated impairment losses. Cost includes items that are directly attributable to the acquisition of the item of property and equipment or intangible asset. Subsequent costs for an item of property and equipment or an intangible asset are recognized only if it is probable that future economic benefits associated with it will flow to the Fonds and the cost can be measured reliably. Repair and maintenance expenses are recognized in total operating expenses through net income when incurred.

The main property and equipment and intangible asset categories are depreciated or amortized over their estimated useful life using the following depreciation and amortization methods, periods and annual rates:

	Depreciation or amortization methods	Periods
Property and equipment		
Buildings	Straight-line	15 to 60 years
Office furniture and equipment	Straight-line	5 and 10 years
Computer hardware	Straight-line	4 years
Right-of-use assets	Straight-line	Lease term
Intangible assets		
Information systems development	Straight-line	3 to 7 years

The Fonds allocates the amount initially recognized in respect of an item of property and equipment or intangible assets to its significant parts and depreciates or amortizes them separately. The carrying amount of a replaced part is derecognized upon replacement. Residual values, depreciation or amortization methods and useful life of assets are reviewed at each reporting date and adjusted if needed.

At each reporting date, property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable to determine whether an impairment loss should be recognized. The Fonds recognizes a reversal of an impairment loss when events or circumstances warrant it.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

The Fonds recognizes its leases as lessee in the Consolidated Statements of Financial Position. Right-of-use assets are included in property and equipment under Other assets, while lease liabilities are presented under Other liabilities. The Fonds recognizes in net income a depreciation expense for right-of-use assets and an implicit interest expense for lease liabilities. The Fonds recognizes leases with lease terms of 12 months or less and leases for which the underlying asset is of low value as lease expenses on a straight-line basis over the lease term. In addition, the Fonds does not separate the non-lease components from the lease components of its leases.

POST-EMPLOYMENT BENEFITS

The cost of earned pension benefits and the insurance plan is recognized through net income and comprises current service cost and net interest on the net defined benefit plan liability.

Remeasurements of the net defined benefit liability are recognized in Other comprehensive income. They are not reclassified subsequently to net income and are presented separately in the Consolidated Statement of Changes in Net Assets. Remeasurements of the net defined benefit liability comprise actuarial gains and losses as well the difference between the actual return on assets and interest income. Actuarial gains and losses result from changes in the actuarial assumptions used to determine the defined benefit obligation and from experience gains and losses on such obligation.

The net defined benefit liability corresponds to the present value of the post-employment benefit plan obligation less the fair value of plan assets.

CLASSIFICATION OF SHARES

Until June 3, 2019, the Fonds had only issued one class of shares that were puttable (redeemable at the option of the holder), subject to certain conditions, namely the Class A shares, and, until such date, these shares were classified as equity instruments as they had all the following features:

- They entitled the holder to a pro rata share of the Fonds' net assets in the event of the Fonds' liquidation;
- They were in a class of instruments that was subordinate to all other classes of instruments of the Fonds;
- They had features that were identical to those of all the other instruments of this class;
- Apart from the contractual obligation for the Fonds to repurchase or redeem the instrument for cash or another financial asset, they did not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that were potentially unfavourable to the entity, and they were not a contract that would or could be settled in the Fonds' own equity instruments;
- The total expected cash flows attributable to the shares over their life were based substantially on the change in net assets.

On June 4, 2019, the Fonds issued Class C shares. The Fonds' Class A and Class C shares are puttable, subject to certain conditions for Class A shares and subject to the *FlexiFonds Fund Rebalancing Policy* for Class C shares. Although they rank equally in terms of seniority, they do not have identical features. As a result, in accordance with IAS 32 *Financial Instruments: Presentation*, Class A shares and Class C shares are classified since June 4, 2019 as financial liabilities and continue to be presented under Net assets.

Share issues and redemptions are recognized as transactions on net assets. Share redemptions are recognized when the requests are approved under redemption criteria at the current redemption value, and are derecognized based on average cost.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED COMPENSATION

The Fonds offers its employees and executives compensation plans for which payment is based on Class A and which are entirely settled in Class A shares. The rights to acquire shares granted under the share award plan are recognized as compensation expense over their vesting period, adjusted based on the share value prevailing at each reporting date. A corresponding liability is recognized under Accrued expenses and other, in Accounts payable. Shares issued under the share allocation and share purchase plans are recognized as compensation expense.

FUNCTIONAL CURRENCY AND FOREIGN CURRENCY TRANSLATION

The Canadian dollar is the functional currency and the reporting currency of the Fonds. Transactions in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the reporting date. Translation differences related to cash are presented in net income under Gains (losses) on development capital investments, other investments and investment property.

REVENUE RECOGNITION

Interest

Interest revenue is recognized on an accrual basis using the effective rate method. Amortization of premiums and discounts under this method is recognized under Interest.

Dividends and distributions

Non-cumulative dividends and distributions are recognized when they are declared, while cumulative dividends are recognized on an accrual basis.

Fee and other income

Fee and other income are recognized on an accrual basis.

Gains and losses on development capital investments, other investments and investment property

Realized gains and losses on disposals of development capital investments and other investments, including derivative financial instruments, are recognized at the time of sale. The amount of such gains and losses is the difference between the proceeds of disposal and average cost.

Unrealized gains and losses on the measurement to fair value of financial instruments and investment property are recognized in net income at the time of measurement to fair value.

INCOME TAXES

The income tax expense comprises the current tax expense and the deferred tax expense. Income taxes are recognized in net income unless they relate to items that are recognized directly in Other comprehensive income or net assets; in such case, income taxes are also recognized directly in Other comprehensive income or net assets respectively.

Current income tax is the amount of income tax payable in respect of the taxable income for the year, calculated using the tax rates that have been enacted or substantively enacted at reporting date, and any adjustments to income taxes related to prior periods.

Deferred income tax is recognized for the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is calculated on a non-discounted basis using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the deductible temporary differences can be utilized.

The Fonds is subject to federal and Québec income taxes. For federal income tax purposes, the Fonds is subject to the tax rules applicable to mutual fund corporations and can therefore receive a refund of the income taxes paid on its capital gains by redeeming its shares or by transferring amounts from retained earnings to share capital. For this reason, the Fonds considers itself, in substance, exempted from federal income tax related to capital gains for purposes of applying IFRS and, accordingly, does not recognize any deferred tax liability for unrealized net gains on development capital investments, other investments and investment property nor any corresponding deferred tax asset for unrealized recoveries resulting from the tax mechanisms related to refundable capital gains tax on hand. For Québec income tax purposes, the Fonds is a mutual fund corporation and, as such, any capital gains it realizes are not subject to any taxes in Québec.

NET INCOME PER CLASS A AND CLASS C SHARE

Net income per Class A and Class C share is calculated by dividing net income by the total weighted average number of Class A and Class C shares outstanding during the year.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTINGS STANDARDS ISSUED AS AT MAY 31, 2021 BUT NOT YET ADOPTED

As at the date of authorization of these consolidated financial statements, new standards and amendments to existing standards had been issued by the International Accounting Standards Board (IASB) but were not effective. None of these standards and amendments might have a significant impact on the Fonds in terms of recognition and disclosure.

3. ACCOUNTING ESTIMATES AND CRITICAL JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires using accounting estimates and judgment when applying certain accounting policies. Changes to certain assumptions may have an impact on the consolidated financial statements for the period during which such changes are made. The Fonds believes that the underlying assumptions are appropriate and that, accordingly, its consolidated financial statements present fairly its financial position and performance. The following paragraphs present an analysis of the most significant accounting estimates and critical judgments made by the Fonds in preparing its consolidated financial statements.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON AN ACTIVE MARKET

The Fonds must make assumptions and use estimates in measuring the fair value of financial instruments that are not traded on an active market. Judgments are made with respect to selecting valuation techniques and with respect to the assumptions used in these valuation techniques.

Although these techniques use observable inputs to the extent practicable, fair value is also determined using unobservable market inputs that take into account the specific features of the financial instrument and any factor relevant to the measurement. Using unobservable inputs requires the Fonds' qualified valuators to make judgments so that these inputs reflect the assumptions, if any, that market participants would use to determine fair value using the best information possible in the circumstances.

The Fonds considers observable inputs to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. Fair value reflects market conditions on a given date and, as such, may not be representative of future fair values.

In accordance with the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure* issued by the Autorité des marchés financiers, the Fonds implemented various controls and procedures to ensure that financial instruments are appropriately and reliably measured. To measure the fair value of financial instruments in accordance with the valuation principles adopted by the Fonds, the Fonds' team of qualified valuators monitor twice a year the performance of the companies in the portfolio and are continuously looking for information on the business and operations of the companies being valued. Where appropriate, the qualified valuators monitor data on comparable companies, the results of recent transactions and the ratings of instruments issued by similar companies.

Except in the case of companies whose financial instruments are traded in an active market, any relevant information related to fair value measurements is submitted to an independent valuation committee composed of a majority of qualified valuators independent from the Fonds, as required by the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure*. This committee reviews this information and submits a written report to the Audit Committee, which must examine the compliance of the consolidated financial statements. The President and Chief Executive Officer as well as the Executive Vice-President, Finance, sign a certification for the Audit Committee on the valuation of development capital investments that is filed with the Autorité des marchés financiers. This certification confirms, in particular, the reasonableness of the aggregate fair value of the development capital investments portfolio.

Impact of COVID-19 on accounting estimates and critical judgments

Although the health crisis caused by the COVID-19 pandemic seems to be on its way to being under control in Québec as at the date of these consolidated financial statements, the development of such pandemic and its future impact on the Québec, Canadian and global economies remain uncertain. Due to this uncertainty, there is a risk that assumptions made and projections used by the Fonds in determining the fair value of development capital investments that are not traded on active markets will differ from actual results, which in turn might further increase the volatility of the fair value of these financial instruments and net assets of the Fonds in the coming six-month periods.

ACCOUNTING ESTIMATES AND CRITICAL JUDGMENTS (CONTINUED)

MEASUREMENT OF THE NET DEFINED BENEFIT LIABILITY

The Fonds must make assumptions for using statistical data and other parameters to measure the net defined benefit liability. These assumptions include the discount rate for the pension obligation and for calculating the expected return on plan assets, the expected rate of increase in salaries and the mortality table used. Should the actuarial assumptions be materially different from the actual data observed subsequently, the plan cost recognized in Other comprehensive income as well as the net defined benefit liability presented on the Consolidated Statements of Financial Position could substantially change. The Fonds uses independent actuaries to determine the fair value of the net defined benefit liability and approves the reasonableness of the assumptions used.

4. FINANCIAL INSTRUMENT RISKS

Risks arising from financial instruments are an integral part of the audited consolidated financial statements and are discussed in the audited "Risk management" section of the *Management Discussion and Analysis for the Year Ended May 31, 2020*, which is available at the Fonds' head office, on its website at *fondsftq.com* or at *sedar.com*.

5. ACCOUNTS RECEIVABLE

(in thousands $)	**May 31, 2021**	May 31, 2020
Accounts receivable relating to development capital investments and other investments sold	**219,652**	335,769
Accrued dividends and interest	**91,757**	106,122
Other	**90,624**	81,130
	402,033	523,021

Accounts receivable maturing in more than twelve months amounts to $24.4 million (May 31, 2020: $37.5 million).

6. OTHER INVESTMENTS

The unaudited *Statement of Other Investments* is available at the Fonds' head office, on its website at *fondsftq.com* or at *sedar.com*.

	May 31, 2021			May 31, 2020		
(in thousands $)	Cost	Unrealized appreciation (depreciation)	Fair value	Cost	Unrealized appreciation (depreciation)	Fair value
Listed shares and unlisted units	3,094,696	938,715	4,033,411	2,630,564	512,994	3,143,558
Bonds	3,116,376	58,574	3,174,950	2,617,007	211,527	2,828,534
Money market instruments	337,557	47	337,604	30,774	10	30,784
	6,548,629	997,336	7,545,965	5,278,345	724,531	6,002,876
Derivative financial instruments	1,956	1,672	3,628	1,052	20,346	21,398
	6,550,585	999,008	7,549,593	5,279,397	744,877	6,024,274

Other investments include securities denominated in foreign currencies with a fair value of $2,953.3 million (May 31, 2020: $2,295.7 million), mainly including $1,912.6 million (May 31, 2020: $1,474.6 million) in U.S. dollars, $310.0 million (May 31, 2020: $253.3 million) in euros, $248.0 million (May 31, 2020: $195.3 million) in yens, $128.7 million (May 31, 2020: $99.6 million) in swiss franc and $125.5 million (May 31, 2020: $102.5 million) in pounds sterling.

BREAKDOWN BY MATURITY

BONDS

(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
May 31, 2021							
Fair value	33,762	1,091,525	892,938	430,275	651,160	75,290	3,174,950
Cost	33,443	1,066,842	872,776	406,243	656,568	80,504	3,116,376
Par value	33,494	1,052,295	863,929	330,145	583,604	73,265	2,936,732
Average effective rate (%)	1.9	1.7	2.2	3.0	2.9	2.5	2.3
Average nominal rate (%)	1.6	2.2	2.4	5.0	3.6	3.0	2.9
May 31, 2020							
Fair value	45,791	973,148	682,275	453,223	569,596	104,501	2,828,534
Cost	45,527	938,916	636,404	397,634	501,690	96,836	2,617,007
Par value	45,529	932,959	622,679	345,024	447,990	90,140	2,484,321
Average effective rate (%)	2.6	2.2	2.8	3.2	3.2	2.7	2.7
Average nominal rate (%)	2.9	2.4	3.1	4.5	3.9	3.1	3.2

MONEY MARKET INSTRUMENTS

(in thousands $)	Less than 1 month	1 to 6 months	Total
May 31, 2021			
Fair value	51,997	285,607	337,604
Average effective rate (%)	0.1	0.2	0.1
May 31, 2020			
Fair value	1,790	28,994	30,784
Average effective rate (%)	0.2	0.4	0.4

OTHER INVESTMENTS (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

(in thousands $)	Less than 1 month	1 to 6 months	6 months and more	Total
May 31, 2021				
Fair value[1]				
Stock option contracts				
Purchased call options		1,848	106	1,954
Written call options		(1,828)	(1,702)	(3,530)
Purchased put options		646		646
Written put options		(269)		(269)
Interest rate forward contracts	485			485
	485	397	(1,596)	(714)
Notional amount				
Stock option contracts				
Purchased call options		6,710	1	6,711
Written call options		28,811	22,350	51,161
Purchased put options		7,334		7,334
Written put options		12,305		12,305
Interest rate forward contracts	149,428			149,428
May 31, 2020				
Fair value[1]				
Stock option contracts				
Purchased call options			123	123
Written call options		(107)	(519)	(626)
Purchased put options		9,332		9,332
Written put options		(7,270)		(7,270)
Foreign currency forward contracts				
Sales	11,684			11,684
Interest rate forward contracts	(320)			(320)
	11,364	1,955	(396)	12,923
Notional amount				
Stock option contracts				
Purchased call options			1	1
Written call options		22,923	2,991	25,914
Purchased put options		20,699		20,699
Written put options		18,629		18,629
Foreign currency forward contracts				
Sales	721,684			721,684
Interest rate forward contracts	445,394			445,394

1. The fair value of instruments with positive values is $3.6 million (May 31, 2020: $21.4 million) and is presented under Other investments. The fair value of those with negative values is $4.3 million (May 31, 2020: $8.5 million) and is presented under Accounts payable.

For the year ended May 31, 2021, realized gains on derivative financial instruments of $108.7 million (May 31, 2020: realized losses of $4.5 million) and unrealized losses on derivative financial instruments of $10.9 million (May 31, 2020: unrealized gains of $10.0 million) are included in Gains (losses) on development capital investments, other investments and investment property reported in the Consolidated Statements of Comprehensive Income.

OTHER INVESTMENTS (CONTINUED)

BREAKDOWN BY INDUSTRY SEGMENT

(in thousands $)	Energy and materials	Indus-trials	Consumer discretionary and consumer staples	Financials, real estate and utilities	Information technology, communication services and healthcare	Govern-ments and government agencies	Total
May 31, 2021							
Listed shares	**470,755**	**443,119**	**635,231**	**1,025,654**	**1,458,652**		**4,033,411**
Bonds	**91,699**	**92,155**	**42,482**	**729,495**	**76,848**	**2,142,271**	**3,174,950**
Money market instruments				**80,426**		**257,178**	**337,604**
Fair value	**562,454**	**535,274**	**677,713**	**1,835,575**	**1,535,500**	**2,399,449**	**7,545,965**
May 31, 2020							
Listed shares and unlisted units	390,063	304,256	515,118	791,529	1,142,592		3,143,558
Bonds	97,831	61,776	51,589	694,918	67,305	1,855,115	2,828,534
Money market instruments				3,998		26,786	30,784
Fair value	487,894	366,032	566,707	1,490,445	1,209,897	1,881,901	6,002,876
Funds committed but not disbursed[1]				12,749			12,749
	487,894	366,032	566,707	1,503,194	1,209,897	1,881,901	6,015,625

1. Funds committed but not disbursed to international infrastructure funds represent other investments that have already been agreed to and for which amounts have been committed by the Fonds but have not been disbursed at the reporting date. Disbursements are subject to compliance with the agreement's terms and conditions. These commitments are denominated in U.S. dollars.

7. DEVELOPMENT CAPITAL INVESTMENTS

The *Audited Statement of Development Capital Investments, at Cost*, is available at the Fonds' head office, on its website at *fondsftq.com* or at *sedar.com.*

	May 31, 2021			May 31, 2020		
(in thousands $)	**Cost**	**Unrealized appreciation (depreciation)**	**Fair value**	Cost	Unrealized appreciation (depreciation)	Fair value
Unsecured						
Listed shares	**587,386**	**345,545**	**932,931**	1,341,679	190,366	1,532,045
Unlisted shares and units	**4,826,603**	**2,828,058**	**7,654,661**	4,756,896	1,434,016	6,190,912
Loans, bonds and advances	**1,372,490**	**30,399**	**1,402,889**	1,452,214	(55,171)	1,397,043
Secured						
Loans	**14,349**	**(1,549)**	**12,800**	39,949	(9,222)	30,727
	6,800,828	**3,202,453**	**10,003,281**	7,590,738	1,559,989	9,150,727

Development capital investments include securities denominated in foreign currencies, mainly the U.S. dollar, with a fair value of $1,136.9 million (May 31, 2020: $701.7 million).

Investment agreements may include clauses providing for conversion and redemption options. Thus, in the normal course of business, the Fonds may exercise these options and make non-monetary exchanges of financial instruments.

DEVELOPMENT CAPITAL INVESTMENTS (CONTINUED)

BREAKDOWN BY MATURITY OF LOANS, BONDS AND ADVANCES AT FAIR VALUE

	Variable rates			Fixed rates			
(in thousands $)	Less than 1 year	1 to 5 years	5 years and more	Less than 1 year	1 to 5 years	5 years and more	Total
May 31, 2021							
Unsecured		442,733	13,600	65,829	336,943	543,784	1,402,889
Average effective rate (%)		5.5	10.3	7.6	7.8	5.8	
Secured				9,566	3,234		12,800
Average effective rate (%)				4.0	12.2		
May 31, 2020							
Unsecured	44	451,181	9,162	23,499	304,728	608,429	1,397,043
Average effective rate (%)	8.0	5.8	7.5	8.9	9.0	5.8	
Secured	16,077			1,250	13,400		30,727
Average effective rate (%)	6.4			7.7	6.5		

Based on agreements in effect, principal receipts expected over the next twelve months total $97.8 million (May 31, 2020: $78.3 million).

BREAKDOWN BY INDUSTRY SEGMENT

(in thousands $)	Energy and materials	Industrials	Consumer discretionary and consumer staples	Financials, real estate and utilities	Information technology, communication services and healthcare	Total
May 31, 2021						
Cost	823,857	1,420,359	940,982	2,326,733	1,288,897	6,800,828
Unrealized appreciation (depreciation)	271,464	367,322	(25,159)	1,773,314	815,512	3,202,453
Fair value	1,095,321	1,787,681	915,823	4,100,047	2,104,409	10,003,281
Funds committed but not disbursed[1]	118,137	173,322	72,900	593,786	466,005	1,424,150
Guarantees and suretyships[2]			200		9,133	9,333
	1,213,458	1,961,003	988,923	4,693,833	2,579,547	11,436,764
May 31, 2020						
Cost	1,146,637	1,514,111	1,133,273	2,315,715	1,481,002	7,590,738
Unrealized appreciation (depreciation)	73,162	66,020	(117,567)	1,339,570	198,804	1,559,989
Fair value	1,219,799	1,580,131	1,015,706	3,655,285	1,679,806	9,150,727
Funds committed but not disbursed[1]	156,794	192,747	84,246	427,821	366,985	1,228,593
Guarantees and suretyships[2]			200		10,449	10,649
	1,376,593	1,772,878	1,100,152	4,083,106	2,057,240	10,389,969

1. Funds committed but not disbursed represent development capital investments that have already been agreed to and for which amounts have been committed by the Fonds but have not been disbursed at the reporting date. Most of the funds committed but not disbursed have a maximum maturity date, and the counterparties may call amounts on demand. Disbursements are subject to compliance with the agreement's terms and conditions. Of funds committed but not disbursed, an amount of $388.4 million (May 31, 2020: $317.7 million) represents credit facilities and project financing for operating companies, having a weighted average maturity of 21 months (May 31, 2020: 29 months) and an amount of $1,035.8 million (May 31, 2020: $910.9 million) represents commitments that will be disbursed to investment entities in tranches, having a weighted average maturity of 6.2 years (May 31, 2020: 6.7 years). Commitments amounting to $252.4 million (May 31, 2020: $146.9 million) are denominated in foreign currencies, mainly the U.S. dollar. An appreciation of $0.6 million (May 31, 2020: $4.1 million) related to these funds committed but not disbursed is presented under Accounts receivable – Other.
2. Under Section 17 of its Incorporation Act, when the Fonds makes a development capital 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 is established from Other investments.

DEVELOPMENT CAPITAL INVESTMENTS (CONTINUED)

GUARANTEES AND SURETYSHIPS

The Fonds granted guarantees and suretyships for operating activities and operating lines of credit purposes that do not generally include a specific maturity and that are irrevocable commitments by the Fonds to make the payments of partner companies that cannot meet their obligations to third parties. As at May 31, 2020 and 2021, there were no liabilities recognized for guarantees and suretyships.

As well, in the normal course of business, the Fonds enters into various indemnification agreements, usually related to sales of development capital investments, for the representations and warranties made as well as to the liability of the Fonds' 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 Fonds may have to pay to counterparties. In management's opinion, it is highly unlikely that these commitments will result in material expenses.

8. OFFSETTING OF FINANCIAL INSTRUMENTS

The Fonds entered into International Swaps & Derivatives Association Inc. ("ISDA") enforceable master netting arrangements with the counterparties with which it trades derivative financial instruments over the counter. These master arrangements may make it possible to apply full netting of over-the-counter derivative financial instrument transactions. Derivative financial instruments subject to enforceable master netting arrangements are presented in the consolidated financial statements before offsetting. The fair value of derivative financial instrument assets subject to such arrangements is $3.5 million (May 31, 2020: $21.3 million), and the fair value of derivative financial instrument liabilities subject to such arrangements is $4.3 million (May 31, 2020: $8.5 million).

For securities sold under repurchase agreements, the Fonds receives from or pledges to the counterparty collateral to manage credit risk. In the event of default, amounts related to a specific counterparty may be settled on a net basis under the *Global Master Repurchase Agreement*.

As at May 31, 2020 and 2021, no amount was set off in the Consolidated Statements of Financial Position.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

CLASSIFICATION

Financial instruments measured at fair value are classified using a hierarchy that reflects the significance of the inputs used in making the measurements. This hierarchy has the following levels:

Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: Fair value based on quoted prices for similar financial instruments or based on valuation techniques for which all significant inputs are based on observable market information.

Level 3: Fair value based on valuation techniques for which all significant inputs are not based on observable market information.

The classification in one of the hierarchy levels is determined upon the initial fair value measurement of the financial instrument and is reviewed at each reporting date. Transfers between hierarchy levels are measured at fair value at the beginning of the year.

(in thousands $)	Level 1	Level 2	Level 3	Total
May 31, 2021				
Financial assets at FVTPL				
Development capital investments				
Unsecured				
Listed shares	931,473	1,458		932,931
Unlisted shares and units			7,654,661	7,654,661
Loans, bonds and advances		114,360	1,288,529	1,402,889
Secured				
Loans			12,800	12,800
	931,473	115,818	8,955,990	10,003,281
Other investments				
Listed shares	4,033,411			4,033,411
Bonds		3,174,950		3,174,950
Money market instruments		337,604		337,604
Derivative financial instruments		3,628		3,628
	4,033,411	3,516,182		7,549,593
Accounts receivable relating to development capital investments and other investments sold		219,652		219,652
Accrued dividends and interest		91,757		91,757
Cash	223,506			223,506
Financial instruments related to securities sold under repurchase agreements		466,682		466,682
	5,188,390	4,410,091	8,955,990	18,554,471
Financial liabilities at FVTPL				
Accounts payable relating to development capital investments and other investments purchased		(345,854)		(345,854)
Derivative financial instruments		(4,342)		(4,342)
Securities sold under repurchase agreements		(466,682)		(466,682)
		(816,878)		(816,878)

During the year ended May 31, 2021, there were no transfers of financial instruments from Level 2 to Level 1.

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CLASSIFICATION (CONTINUED)

(in thousands $)	Level 1	Level 2	Level 3	Total
May 31, 2020				
Financial assets at FVTPL				
Development capital investments				
Unsecured				
Listed shares	1,531,421	624		1,532,045
Unlisted shares and units			6,190,912	6,190,912
Loans, bonds and advances		96,223	1,300,820	1,397,043
Secured				
Loans			30,727	30,727
	1,531,421	96,847	7,522,459	9,150,727
Other investments				
Listed shares and unlisted units	3,132,781		10,777	3,143,558
Bonds		2,828,534		2,828,534
Money market instruments		30,784		30,784
Derivative financial instruments		21,398		21,398
	3,132,781	2,880,716	10,777	6,024,274
Accounts receivable relating to development capital investments and other investments sold		335,769		335,769
Accrued dividends and interest		106,122		106,122
Cash	206,158			206,158
Financial instruments related to securities sold under repurchase agreements		624,331		624,331
	4,870,360	4,043,785	7,533,236	16,447,381
Financial liabilities at FVTPL				
Accounts payable relating to development capital investments and other investments purchased		(255,972)		(255,972)
Derivative financial instruments		(8,475)		(8,475)
Securities sold under repurchase agreements		(624,331)		(624,331)
		(888,778)		(888,778)

During the year ended May 31, 2020, financial instruments having a fair value of $70.2 million were transferred from Level 2 to Level 1 as their fair value is now based on a price observed on an active market.

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

LEVEL 3 – RECONCILIATION

DEVELOPMENT CAPITAL INVESTMENTS

(in thousands $)	Unlisted shares and units	Loans, bonds and advances		Total
		Unsecured	Secured	
May 31, 2021				
Fair value as at May 31, 2020	6,190,912	1,300,820	30,727	7,522,459
Purchases	567,169	166,993	3,250	737,412
Sales and settlements	(444,700)	(215,588)	(15,600)	(675,888)
Realized gains (losses)	18,841	(51,130)	(13,250)	(45,539)
Unrealized gains (losses)	1,394,042	87,434	7,673	1,489,149
Transfers out of Level 3[1]	(71,603)			(71,603)
Fair value as at May 31, 2021	7,654,661	1,288,529	12,800	8,955,990
Unrealized gains (losses) on development capital investments held as at May 31, 2021	1,306,996	41,831		1,348,827
May 31, 2020				
Fair value as at May 31, 2019	5,706,089	1,292,129	28,179	7,026,397
Purchases	779,623	239,598	13,116	1,032,337
Sales and settlements	(179,305)	(155,094)	(5,700)	(340,099)
Realized gains (losses)	52,774	(9,632)		43,142
Unrealized gains (losses)	(168,269)	(66,181)	(4,868)	(239,318)
Fair value as at May 31, 2020	6,190,912	1,300,820	30,727	7,522,459
Unrealized gains (losses) on development capital investments held as at May 31, 2020	(139,091)	(90,919)	(4,868)	(234,878)

1. During the year ended May 31,2021, financial instruments having a fair value of $71.6 million were transferred to Level 1 as their fair value is now based on a price observed on an active market.

Purchases as well as sales and settlements may include non-monetary exchanges of financial instruments resulting from conversions in the normal course of the Fonds' business.

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

USE OF UNOBSERVABLE INPUTS IN MEASURING LEVEL 3 FINANCIAL INSTRUMENTS

Level 3 financial instruments are measured at fair value using valuation techniques and models that may incorporate assumptions derived from unobservable market inputs. The following table shows the main techniques and inputs used in measuring the fair value of financial instruments categorized within Level 3:

	Fair value (in thousands $)	Main valuation techniques	Unobservable inputs	Input value ranges (weighted average)
May 31, 2021				
Development capital investments				
Unlisted shares and units			Capitalization rate	**5.2 % – 19.6 % (8.2 %)**
	1,924,799	Capitalized cash flows	EBITDA margin %[1]	**4.7 % – 38.4 % (13.6 %)**
	660,399	Discounted cash flows	Required rate of return	**4.0 % – 13.5 % (8.0 %)**
	4,511,439	Adjusted net assets	Adjusted net assets	**N/A[2]**
	473,753	Recent transaction		
	39,873	Bid value		
	44,398	Other[3]		
Loans, bonds and advances	**1,269,472**	Discounted cash flows	Required rate of return	**1.9 % – 15.0 % (5.3 %)**
	31,857	Other		
	8,955,990			
May 31, 2020				
Development capital investments				
Unlisted shares and units			Capitalization rate	4.3% – 14.5% (8.6%)
	1,467,649	Capitalized cash flows	EBITDA margin %[1]	3.4% – 39.4% (10.5%)
	634,491	Discounted cash flows	Required rate of return	4.0% – 12.3% (8.4%)
	3,570,281	Adjusted net assets	Adjusted net assets	N/A[2]
	433,329	Recent transaction		
	628	Bid value		
	84,534	Other[3]		
Loans, bonds and advances	1,285,042	Discounted cash flows	Required rate of return	4.0% – 15.0% (6.6%)
	46,505	Other		
	7,522,459			
Other investments				
Unlisted units	10,777	Manager's quote		

1. As a result of the high variety in sizes of the companies in the portfolio, maintainable flows are presented as a percentage of earnings before interest, taxes, depreciation and amortization (EBITDA) over sales.
2. Since the nature and size of adjustments to net assets vary greatly between investments, no input range is presented for adjusted net assets.
3. Other valuation techniques include the expected transaction value, redemption value and liquidation value techniques.

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

SENSITIVITY ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Calculating the fair value of financial instruments categorized within Level 3 requires the use of assumptions derived from unobservable market inputs. The use of alternative assumptions could result in fair values that differ from those established at the reporting date.

Sensitivity analyses are performed for financial instruments measured using the capitalized cash flow and the discounted cash flow techniques, as well as for some instruments measured using the bid value technique. These valuation techniques are those for which the judgment of the qualified valuator is significantly important in determining fair value. In performing the sensitivity analyses, reasonably possible alternative variables for maintainable EBITDA, the capitalization rate and the required rate of return were used.

The analyses on loans, bonds and advances measured using the discounted cash flow technique were performed with a +/-0.50% change in the required rate of return.

The following table presents the potential increase and decrease in fair value of the financial instruments categorized within Level 3 for which sensitivity analyses were performed:

	May 31, 2021		May 31, 2020	
(in thousands $)	**Increase**	**Decrease**	Increase	Decrease
Sensitivity of fair value	**142,423**	**(159,773)**	108,061	(118,701)

The adjusted net assets, recent transaction and redemption value valuation techniques are not included in the sensitivity analysis as they use few or no underlying assumptions to determine fair value. In addition, the expected transaction value and liquidation value valuation techniques are excluded from the sensitivity analysis given the low materiality of the financial instruments measured using these two techniques.

10. SECURITIES LENDING

As part of the securities lending program, the Fonds must obtain, in accordance with current regulations, collateral for securities lent having a fair value of at least 102% of the fair value of securities lent. As at May 31, 2021 and 2020, the fair value of collateral held, mainly comprised of listed shares, government and corporate bonds, met that threshold, and the fair value of securities lent was $686.1 million (May 31, 2020: $867.3 million).

11. OTHER ASSETS

(in thousands $)	Note	**May 31, 2021**	May 31, 2020
Income taxes		**4,719**	535
Refundable taxes on hand	20	**28,956**	14,665
Investment property[1]			7,123
Property and equipment and intangible assets[1]		**139,387**	121,959
Deferred income taxes	20	**1,065**	
		174,127	144,282

1.Detailed information on these items is provided below.

INVESTMENT PROPERTY

The investment property held by the Fonds comprised rental space. At the beginning of the year ended May 31, 2021, it was transferred into the Buildings category, in property and equipment. The following table presents the changes in use and fair value of the investment property for the year ended:

(in thousands $)	**May 31, 2021**	May 31, 2020
Balance at beginning	**7,123**	27,905
Decrease in rental space		(21,801)
Transfer into property and equipment	**(7,123)**	
Change in fair value recognized in net income		1,019
Balance at end		7,123

OTHER ASSETS (CONTINUED)

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and equipment					Intangible assets	
(in thousands $)	Buildings	Office furniture and equipment	Computer hardware	Right-of-use assets	Total	Information system development	Total of property and equipment and intangible assets
May 31, 2021							
Cost	92,737	7,621	10,586	3,066	114,010	83,577	197,587
Accumulated depreciation and amortization	(11,647)	(1,646)	(7,433)	(992)	(21,718)	(36,482)	(58,200)
Net carrying amount	81,090	5,975	3,153	2,074	92,292	47,095	139,387
Change during the year							
Net carrying amount as at May 31, 2020	71,657	4,368	3,484	1,790	81,299	40,660	121,959
Acquisitions	5,422	2,788	1,195	1,026	10,431	15,930	26,361
Transfer of investment property	7,123				7,123		7,123
Depreciation and amortization	(3,112)	(1,181)	(1,526)	(742)	(6,561)	(9,495)	(16,056)
Net carrying amount as at May 31, 2021	81,090	5,975	3,153	2,074	92,292	47,095	139,387
May 31, 2020							
Cost	80,192	8,171	11,868	2,040	102,271	76,530	178,801
Accumulated depreciation and amortization	(8,535)	(3,803)	(8,384)	(250)	(20,972)	(35,870)	(56,842)
Net carrying amount	71,657	4,368	3,484	1,790	81,299	40,660	121,959
Change during the year							
Net carrying amount as at May 31, 2019	45,935	3,218	4,106		53,259	27,126	80,385
Impact of IFRS 16 adoption				1,719	1,719		1,719
Acquisitions	27,708	1,683	1,483	321	31,195	19,373	50,568
Depreciation and amortization	(1,986)	(533)	(2,105)	(250)	(4,874)	(5,839)	(10,713)
Net carrying amount as at May 31, 2020	71,657	4,368	3,484	1,790	81,299	40,660	121,959

As at May 31, 2021 and 2020, no item of property and equipment and no intangible asset were impaired. In addition, as at May 31, 2021 and 2020, the Fonds had no significant contractual commitment for the acquisition of property and equipment and intangible asset.

12. NOTES

The notes, which arise from excess liquidities of regional, local and real estate funds and of certain other specialized funds, are repayable on demand and bear interest at a rate based on the expected average long-term rate of return of Other investments. As at May 31, 2021 and 2020, the interest rate is 4%.

13. CREDIT FACILITY

As at May 31, 2021 and 2020, the Fonds has a line of credit of $60 million bearing interest at prime rate and renewable annually. The line of credit was not used during the years ended May 31, 2021 and 2020.

14. ACCOUNTS PAYABLE

(in thousands $)	**May 31, 2021**	May 31, 2020
Accounts payable relating to development capital investments and other investments purchased	**345,854**	255,972
Accrued expenses and other	**69,779**	48,357
Derivative financial instruments	**4,342**	8,475
	419,975	312,804

15. OTHER LIABILITIES

(in thousands $)	Notes	**May 31, 2021**	May 31, 2020
Class A shares redemptions payables		**18,907**	1,119,706
Income taxes		**25,404**	1,617
Lease liabilities		**2,134**	1,837
Net defined benefit liability	21	**72,648**	108,781
Deferred income taxes	20	**19,552**	15,184
		138,645	1,247,125

16. 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, which can only be issued to individuals, can be exchanged for shares of another series and rank equally among themselves. Class A shares, Series 1 are held in a Registered Retirement Savings Plan (RRSP) or a Registered Retirement Income Fund (RRIF), while Class A shares, Series 2 are held outside an RRSP.

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 Class C shares. No Class B shares had been issued as at May 31, 2021 and 2020.

Class C shares

Unlimited number of Class C shares, Series 1, without par value, non-voting, redeemable and inalienable unless approved by a resolution of the Board of Directors.

The Class C shares, Series 1, are only issued to the FlexiFonds funds. In the event of liquidation, they rank equally with Class A shares.

Allocation of comprehensive income to share classes

Comprehensive income is allocated to Class A and Class C shares based on the proportionate number of outstanding shares in each class at the end of the six-month period or financial year.

Redemption terms

The redemption price of Class A and Class C shares is identical, and it is determined every six months based on the value of net assets attributable to shareholders of the Fonds as at May 31 and November 30.

Class A shares

The Fonds is required to redeem Class A shares in the circumstances set out in its Incorporation Act or to redeem them by mutual agreement in exceptional situations provided under a policy for such purpose adopted by the Fonds' Board of Directors and approved by the Minister of Finance of Québec.

Class C shares

Class C shares are redeemable in accordance with the *FlexiFonds Funds Rebalancing Policy*.

Contributed surplus

Contributed surplus which is only attributable to Class A shares, arises from the reduction in issued and paid-up capital resulting from transfers and the excess of the average value of share capital over the redemption price. This excess is reduced when shares are redeemed at a price exceeding the average value of issued share capital, pro rata to the redeemed shares.

Change in redemptions in process

The change in redemptions in process is the difference between redemptions in process at the end of the year and redemptions in process at the end of the prior year, the latter having been disbursed during the year and included in share redemptions. Redemptions in process represent share redemption requests received by the Fonds that are being processed as at the reporting date. The amount of redemptions in process is measured using the share value at which the shares will be redeemed and is reported under Other liabilities – Class A shares redemptions payable.

Transfers

During the year, the Board of Directors approved an increase in the issued and paid-up capital on Class A shares, Series 1 of $180 million through transfers from retained earnings (May 31, 2020: $875 million).

As at May 31, 2021, the Fonds had, since its incorporation, transferred the following cumulative amounts: $3,823 million from retained earnings to Class A, Series 1, share capital, $1,500 million from Class A, Series 1, share capital to contributed surplus and $291 million from contributed surplus to retained earnings.

NET ASSETS (CONTINUED)

SHARE-BASED COMPENSATION

The Fonds offers three compensation plans for which payment is based on Class A shares.

Share allocation plan

This plan, offered to employees who do not participate in the other plans, provides for the annual issuance of 20 or 50 shares, based on the number of years of service. The shares are vested upon their issuance to the employee by the Fonds. During the year ended May 31, 2021, the Fonds issued 27,632 shares (May 31, 2020: 26,056 shares) under this plan.

Share purchase plan

This plan allows certain managers to purchase shares of the Fonds and, for each share purchased, the Fonds issues to such manager one share, up to a maximum annual value of $6,250. The shares are vested upon their issuance to the executive by the Fonds. During the year ended May 31, 2021, the Fonds issued 2,187 shares (May 31, 2020: 1,721 shares) under this plan.

Share award plan

This plan, offered to certain managers, provides for the award of rights to acquire shares for each financial year the Fonds meets a minimum comprehensive income threshold of $50 million. The number of shares underlying the granted rights is determined using a maximum percentage of 10% of the target rate for the manager's salary grade, divided by the share value at the time of the grant. The awarded rights are vested at the end of the three-year period following the award date if the manager remains employed by the Fonds during such vesting period or, if he or she retires. Once vested, these rights are converted into shares at the then prevailing share value. Under this plan, the Fonds awarded 8,019 rights to acquire shares during the year ended May 31, 2021 (May 31, 2020: 7,435) and had 18,346 rights to acquire shares in the process of being vested as at May 31, 2021 (May 31, 2020: 12,045).

The following table presents the compensation expense recognized for plans for which payment is based on shares:

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Share allocation plan	**1,249**	1,144
Share purchase plan	**101**	77
Share award plan	**312**	207
	1,662	1,428

NET ASSETS (CONTINUED)

NET ASSETS

The following table shows the change in the components of net assets.

	Share capital						
	Class A shares		Class C shares				
(in thousands $)	Series 1	Series 2	Series 1	Sub scribed	Retained earnings	Accumulat ed other comprehen -sive income	Total
Net assets as at May 31, 2019	15,460,753	166,484					15,627,237
Impact of issuance of Class C share	(5,134,497)	(59,108)		641,697	4,562,374	(10,466)	
	10,326,256	107,376		641,697	4,562,374	(10,466)	15,627,237
Net income					218,739		218,739
Other comprehensive income						11,033	11,033
Share issues	948,209	13,155	20,257				981,621
Share redemptions	(1,345,449)	(26,302)	(318)	(117,317)	(466,266)		(1,955,612)
Change in redemptions in process	(766,725)			(65,045)	(256,809)		(1,088,579)
Transfers	875,000				(875,000)		
Net assets as at May 31, 2020	**10,037,291**	**94,229**	**19,939**	**459,335**	**3,183,078**	**567**	**13,794,439**
Net income					**2,847,104**		**2,847,104**
Other comprehensive income						**42,109**	**42,109**
Share issues	**1,146,040**	**15,763**	**24,613**				**1,186,416**
Share redemptions	**(1,242,929)**	**(14,348)**	**(62)**	**(23,562)**	**(498,637)**		**(1,779,538)**
Change in redemptions in process	**771,937**			**65,996**	**257,911**		**1,095,844**
Transfers	**180,000**				**(180,000)**		
Net assets as at May 31, 2021	**10,892,339**	**95,644**	**44,490**	**501,769**	**5,609,456**	**42,676**	**17,186,374**

ISSUED AND OUTSTANDING SHARES

	Class A shares			Class C shares	
(in thousands of shares)	Series 1	Series 2	Total	Series 1	Total
As at May 31, 2019	352,162	3,792	355,954		355,954
Share issues	21,383	303	21,686	468	22,154
Share redemptions	(41,869)	(897)	(42,766)	(8)	(42,774)
Change in redemptions in process	(23,511)		(23,511)		(23,511)
As at May 31, 2020	**308,165**	**3,198**	**311,363**	**460**	**311,823**
Share issues	**24,947**	**349**	**25,296**	**522**	**25,818**
Share redemptions	**(37,888)**	**(484)**	**(38,372)**	**(1)**	**(38,373)**
Change in redemptions in process	**23,738**		**23,738**		**23,738**
As at May 31, 2021	**318,962**	**3,063**	**322,025**	**981**	**323,006**

NET INCOME PER CLASS A AND CLASS C SHARE

Net income per Class A and Class C share is based on the total weighted average number of Class A and Class C shares outstanding. For the year ended May 31, 2021, the total weighted average number of Class A and Class C shares was 316,724,324 (May 31, 2020: 357,289,849).

17. CAPITAL DISCLOSURES

The Fonds collects capital to make development capital investments in keeping with its mission, while maintaining the liquidities required to satisfy the share redemption requests submitted by shareholders and meet its commitments. The Fonds' policy is to reinvest all income generated by its operations, and it does not expect to pay dividends to its shareholders. The Fonds is not subject to externally imposed capital requirements other than those governing Class A share issues and redemptions.

EXTERNALLY IMPOSED REQUIREMENTS GOVERNING CLASS A SHARE ISSUES

Investment rule

The Fonds may make development capital investments in any business enterprise with or without security. However, at the end of each financial year, qualified development capital investments must meet the investment rule minimum threshold as prescribed by the Fonds' Incorporation Act. As at May 31, 2021 and 2020, the minimum threshold is 65%.

If the Fonds fails to reach this threshold, the share issues for the following financial year are limited to a prescribed percentage of the total value of shares in the preceding financial year, except for shares acquired through payroll deductions and employer contributions stipulated in agreements concluded at the end of the preceding financial year. The percentage under the investment rule was 73.3% as at May 31, 2021 (May 31, 2020: 65.3%). Since the minimum threshold of the investment rule was reached as at May 31, 2021, the amount of share for the financial year ending May 31, 2022 will not be limited by the investment rule.

EXTERNALLY IMPOSED REQUIREMENTS GOVERNING CLASS A SHARE REDEMPTION

The *Taxation Act* (Québec) provides for the payment of a penalty by the Fonds when the total amount paid for purchases of Class A share by mutual agreement made during a financial year exceeds 2% of paid-up capital, with certain criteria for purchases by mutual agreement being excluded from the calculation. Since this provision has been in effect, the Fonds had always complied with this limit.

18. CONTINGENCIES

In the normal course of business, the Fonds is party to claims and litigations that could result in losses. A contingent loss is recognized when it is likely and can be estimated. Management believes that the aggregate amount of other contingent losses would not have a material adverse effect on the Fonds' financial position.

19. TOTAL OPERATING EXPENSES

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Salaries and benefits	**143,261**	128,232
Professional fees	**27,406**	25,942
Advertising and information	**22,084**	21,483
Licenses, market data and office expenses	**14,373**	11,595
Occupancy expenses and rent	**11,200**	10,738
Management fees	**8,821**	7,714
Shareholder reporting costs	**2,732**	2,603
Custodial fees and trustee's fees	**1,821**	1,847
Travel and entertainment	**1,412**	5,946
Depreciation of property and equipment and amortization of intangible assets	**16,056**	10,713
	249,166	226,813

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20. INCOME TAXES

For purposes of the *Income Tax Act* (Canada), the Fonds is subject to the rules applicable to mutual fund corporations. As such, the Fonds can receive a refund of the income taxes paid on its capital gains by redeeming its shares or by increasing its issued and paid-up capital through transfers. Since these income taxes are refundable and that, in management's opinion, the issued and paid-up share capital will be increased sufficiently to recover them, these income taxes are not presented in the Consolidated Statements of Comprehensive Income, but are presented as a deduction from income taxes payable. The balance of these refundable taxes of $29.0 million as at May 31, 2021 (May 31, 2020: $14.7 million) is presented under Other assets.

The Fonds, as a private company under the *Income Tax Act* (Canada), can receive a refund of a portion of the income taxes paid on its investment income through the refundable dividend tax on hand in respect non-eligible dividends (refundable dividend tax on hand). The refundable dividend tax on hand is recoverable by increasing the issued and paid-up share capital through a transfer from retained earnings. This tax was applied against income taxes payable following transfers approved by the Board of Directors during the year.

Under the *Taxation Act* (Québec), the Fonds is an open-ended investment company. As such, the Fonds can, in calculating its Québec taxes, deduct taxable capital gains from its taxable income. Consequently, capital gains realized by the Fonds are not subject to taxes in Québec.

Income taxes on income are detailed as follows:

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Current	**11,709**	17,398
Deferred	**(6,909)**	5,402
	4,800	22,800

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

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Income before income taxes	**2,851,904**	241,539
Tax rate to which the Fonds is subject	**50.2%**	50.2%
Income taxes	**1,431,656**	121,253
Non-taxable dividends and distributions	**(162,436)**	(143,104)
Refundable dividend tax on hand	**(8,382)**	(22,532)
Realized and unrealized capital gains (losses)		
Non-taxable portion and federal rate difference	**(764,351)**	41,794
Refundable federal tax	**(351,756)**	19,474
Québec tax deduction	**(144,506)**	7,479
Other items	**4,575**	(1,564)
	4,800	22,800

Items giving rise to deferred income tax assets (liabilities) are as follows:

	May 31, 2021		May 31, 2020
(in thousands $)	**Assets**	**Liabilities**	Liabilities
Development capital investments		**(20,744)**	(21,183)
Investment property			(557)
Property and equipment and intangible assets		**(13,788)**	(13,689)
Net defined benefit liability	**36**	**14,140**	21,197
Other	**1,029**	**840**	(952)
	1,065	**(19,552)**	(15,184)

21. POST-EMPLOYMENT BENEFITS

The Fonds offers defined benefit pension plans and a post-employment insurance plan to eligible employees. The defined benefit obligation of these plans, as measured by independent actuaries, and the fair value of plan assets are determined as May 31, 2021.

DEFINED BENEFIT PENSION PLANS

The pension plans provide retirement benefits that are based on the number of years of service and the average annual salary, which is the highest annualized average salary for 36 consecutive months of service. The pension plans are funded by contributions from both the Fonds and employees that are based on the plans' financial position and funding policy. The Fonds' contributions are determined based on a percentage of pensionable payroll for plan participants. The Fonds is responsible for these funded and unfunded plans. To manage these plans, the Fonds set up retirement committees, and these committees retained the professional services of independent investment managers, actuaries and trustees to get assistance in fulfilling their duties.

POST-EMPLOYMENT-INSURANCE PLAN

The post-employment insurance plan provides prescription drug insurance and other insurance products up to a maximum annual premium amount. This plan is unfunded.

POST-EMPLOYMENT BENEFITS (CONTINUED)

CHANGES IN NET DEFINED BENEFIT LIABILITY

Changes in the net defined benefit liability during the year are as follows:

	Pension plans			Insurance plan	Total
(in thousands $)	Obligation	Fair value of assets	Net defined benefit liability	Obligation	Net defined benefit liability
Balance at May 31, 2019	(431,900)	332,718	(99,182)	(6,636)	(105,818)
Current service cost	(27,489)		(27,489)	(299)	(27,788)
Net interest expense/income	(14,328)	10,321	(4,007)	(300)	(4,307)
Impact on net income	(41,817)	10,321	(31,496)	(599)	(32,095)
Remeasurements of actuarial assumptions					
Difference between the actual return on assets and interest income		5,791	5,791		5,791
Gain (loss) arising from changes in financial assumptions	7,892		7,892		7,892
Impact on other comprehensive income	7,892	5,791	13,683		13,683
Fonds contributions		15,315	15,315		15,315
Employees contributions	(9,093)	9,093			
Benefits paid	9,554	(9,554)		134	134
	461	14,854	15,315	134	15,449
Balance at May 31, 2020	(465,364)	363,684	(101,680)	(7,101)	(108,781)
Current service cost	(28,932)		(28,932)	(307)	(29,239)
Past service cost	(24)		(24)	(2)	(26)
Net interest expense/income	(15,876)	11,707	(4,169)	(226)	(4,395)
Impact on net income	(44,832)	11,707	(33,125)	(535)	(33,660)
Remeasurements of actuarial assumptions					
Difference between the actual return on assets and interest income		44,587	44,587		44,587
Gain (loss) arising from changes in financial assumptions	8,368		8,368	110	8,478
Experience gain (loss)	(744)		(744)		(744)
Impact on other comprehensive income	7,624	44,587	52,211	110	52,321
Fonds contributions		17,247	17,247		17,247
Employees contributions	(13,098)	13,098			
Benefits paid	15,665	(15,665)		225	225
	2,567	14,680	17,247	225	17,472
Balance at May 31, 2021	(500,005)	434,658	(65,347)	(7,301)	(72,648)

As at May 31, 2021, the weighted average duration of the defined benefit obligation is 18.0 years (May 31, 2020: 18.0 years) for defined benefit pension plans and 14.6 years (May 31, 2020: 15.2 years) for the insurance plan. During the next twelve months, the Fonds expects to contribute approximately $16.7 million to its defined benefit plans.

POST-EMPLOYMENT BENEFITS (CONTINUED)

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The significant actuarial assumptions used to measure the Fonds' defined benefit obligation and the costs recognized for the plans are as follows:

	May 31, 2021		May 31, 2020	
(in %)	**Pension plans**	**Insurance plan**	Pension plans	Insurance plan
Defined benefit obligation				
Rate at end of year				
Discount rate	**3.30**	**3.20**	3.20	3.10
Rate of increase in salaries	**3.50**		3.50	
Mortality table	**CPM 2014**	**CPM 2014**	CPM 2014	CPM 2014
Defined benefit costs recognized				
Rate at end of previous year				
Discount rate	**3.20**	**3.10**	3.10	3.10
Rate of increase in salaries	**3.50**		3.50	
Mortality table	**CPM 2014**	**CPM 2014**	CPM 2014	CPM 2014

The Fonds set the maximum annual amount it will assume per retiree under the insurance plan and does not expect any increases in that amount in the future.

SENSITIVITY ANALYSES

The sensitivity analyses for the defined benefit obligation were prepared based on reasonably possible changes in each significant actuarial assumption, without considering the impact of simultaneous changes in several significant actuarial assumptions. Any change in an actuarial assumption may result in a change in another actuarial assumption, which could amplify or reduce the impact of changes in such assumptions on the present value of the defined benefit obligation. Actual results could differ from these estimates.

	Impact on the defined benefit obligation as at May 31, 2021		
	Change in assumption	**Increase in assumption** (impact in thousands $)	**Decrease in assumption** (impact in thousands $)
Discount rate	**0.50%**	**(41,227)**	**47,094**
Rate of increase in salaries	**0.50%**	**10,958**	**(10,367)**
Life expectancy	**1 year**	**10,664**	**(10,870)**

	Impact on the defined benefit obligation as at May 31, 2020		
	Change in assumption	Increase in assumption (impact in thousands $)	Decrease in assumption (impact in thousands $)
Discount rate	0.50%	(38,991)	44,601
Rate of increase in salaries	0.50%	10,649	(10,068)
Life expectancy	1 year	10,468	(10,660)

POST-EMPLOYMENT BENEFITS (CONTINUED)

COMPOSITION OF PENSION PLAN ASSETS

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

(in %)	**May 31, 2021**	May 31, 2020
Equity mutual funds	**62.3**	62.5
Bond mutual funds	**37.4**	37.5
Cash and other	**0.3**	0.0
	100.0	100.0

EXPOSURE TO ACTUARIAL RISKS

As a result of its defined benefit plans, the Fonds is exposed to certain risks, the most significant of which are described below.

Interest rate risk

A decrease in fixed-rate bond interest rates, which would decrease the discount rate used, would increase the present value of the defined benefit obligation. This increase would however be partially offset by an increase in the value of plan assets.

Longevity and rate of increase in salaries risk

As the majority of the plan obligations relate to the payment of benefits over the retiree's lifetime, an increase in life expectancy would increase the plan liability. Likewise, an increase in the rate of increase in the participants' salaries would increase the plan liability.

REMEASUREMENT OF THE NET DEFINED BENEFIT LIABILITY

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Actuarial gain (loss) arising from post-employment benefits	**52,321**	13,683
Deferred income taxes	**(10,212)**	(2,650)
	42,109	11,033

22. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Fonds' key management personnel comprise the members of the Board of Directors and the members of the Management Committee. The following table presents the Fonds' key management personnel compensation:

	For the years ended May 31,	
(in thousands $)	**2021**	2020
Salaries and short-term benefits	**3,111**	3,135
Post-employment benefits	**1,829**	1,901
Share-based compensation	**218**	159
Directors' remuneration and fees[1]	**861**	799
	6,019	5,994

1. Excludes the directors' remuneration paid directly to the Fédération des travailleurs et travailleuses du Québec (FTQ) amounting to $0.7 million (May 31, 2020: $0.6 million), which is included in the amount presented in the "Transactions with other related parties" of this note.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES INCLUDED IN DEVELOPMENT CAPITAL INVESTMENTS

Further to its quantitative and qualitative analyses, management determined that the Fonds controls (subsidiaries) or exercises significant influence over (associates) over operating companies and investment entities included in development capital investment:

	May 31, 2021		May 31, 2020	
	Number	**Fair value** (in thousands $)	Number	Fair value (in thousands $)
Subsidiaries				
Operating companies	**15**	**1,715,943**	18	1,477,312
Investment entities	**15**	**1,930,010**	16	1,701,674
Associates				
Operating companies	**73**	**1,006,667**	76	848,003
Investment entities	**29**	**894,144**	28	492,263

The principal place of business of the majority of subsidiaries and associates is in Québec. An entity is considered as a subsidiary when it is controlled by the Fonds. The Fonds controls an entity when all the following conditions are met: 1) it has power over the entity; 2) it has exposure or rights to variable returns from its involvement with the entity; and 3) it has the ability to affect such returns as a result of its power over the entity. The proportion of ownership interests held by the Fonds in subsidiaries is generally greater than 50%. An associate is an entity over which the Fonds has significant influence with respect to financial and operating policy decisions, without however controlling that entity. The proportion of ownership interests held by the Fonds in associates is generally between 20% and 50%.

Interests in operating companies are in the form of common shares or units, while interests in investment entities are in the form of units. In certain circumstances, some conditions could restrict the ability of a subsidiary to transfer amounts to the Fonds: for instance, compliance with certain ratios or approval of a payment by another financial institution or other shareholders. However, the Fonds considers that there are no significant restrictions to these transfers, except for one subsidiary operating in the insurance industry. In that case, laws and regulations do not allow the Fonds to receive dividends, redeem its shares or obtain repayment of its loans without approval by the Autorité des marchés financiers.

When the Fonds controls an investment entity, it must also take into account in its scope of subsidiaries and associates those of that investment entity. Accordingly, as at May 31, 2021, the Fonds indirectly had 99 additional subsidiaries and 195 additional associates under this criterion (May 31, 2020: 128 subsidiaries and 187 associates).

RELATED PARTY TRANSACTIONS (CONTINUED)

TRANSACTIONS WITH RELATED PARTIES INCLUDED IN DEVELOPMENT CAPITAL INVESTMENTS

In the normal course of business, the Fonds conducts transactions with related parties included in development capital investments. The following table presents the cumulative amount of transactions carried out during the year and the cumulative balances at the reporting date for all these companies:

	For the years ended May 31,					
	2021			2020		
(in thousands $)	Subsi-diaries	Associates	Total	Subsi-diaries	Associates	Total
Transactions						
Interest	300	11,848	12,148	9,405	18,772	28,177
Dividends and distributions	31,762	117,737	149,499	60,649	85,106	145,755
Fee and other income	2,202	2,030	4,232	2,494	1,521	4,015
Interest expense on notes	25,148	1,022	26,170	28,110	1,054	29,164
Total operating expenses	2,643	7,481	10,124	6,562	604	7,166
Increase on notes	321,979	5,717	327,696	403,518	1,150	404,668
Repayment of notes	431,666	8,749	440,415	496,885	2,330	499,215
Disbursements for development capital investments	112,843	200,370	313,213	86,936	371,871	458,807
Receipts on development capital investments	145,660	157,564	303,224	72,455	36,821	109,276
	May 31, 2021			May 31, 2020		
Balances						
Development capital investments, at cost	1,973,783	1,426,798	3,400,581	2,016,536	1,420,572	3,437,108
Accounts receivable	2,085	6,166	8,251	6,489	21,002	27,491
Accounts payable	156	73	229	154	125	279
Notes	582,462	24,849	607,311	667,001	26,859	693,860
Other information						
Funds committed but not disbursed	363,260	182,129	545,389	250,063	138,801	338,864

The Fonds engaged one of its associates to manage portfolios with assets amounting $152.9 million (May 31, 2020: $84.9 million).

RELATED PARTY TRANSACTIONS (CONTINUED)

TRANSACTIONS WITH OTHER RELATED PARTIES

The Fonds, of which directors are elected by the Fédération des travailleurs et travailleuses du Québec (FTQ), agreed to pay $3.0 million to the FTQ for the year ended May 31, 2021 (May 31, 2020: $3.0 million) under an agreement that calls for compensation to be paid for services rendered in respect of economic training, savings market development, attendance at the Fonds' governing bodies 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 Fonds granted non-interest bearing loans of $20 million with a fair value of $13.9 million (May 31, 2020: $15.3 million) to the Fonds étudiant solidarité travail du Québec (FESTQ), which are considered related to the Fonds because the Fonds appoints some of their directors together with the Government of Québec.

The Fonds granted a non-interest bearing loan of $5 million with a fair value of $3.4 million (May 31, 2020: $3.7 million) to Fiducie Montréal inc., which is considered related to the Fonds because the Fonds appoints some of its directors.

These loans are presented under Accounts receivable – Other in the Consolidated Statement of Financial Position.

The Fonds recognized fee income of $1.4 million in the year ended May 31, 2021 (May 31, 2020: $0.6 million) for management and administration services rendered to the FlexiFonds funds, for which it acts as mutual fund manager. The Fonds holds 4.1 million units in the FlexiFonds funds, with a cost of $41.2 million and presented under Accounts receivable – Other, which were issued in connection with contributions made to launch the funds and distributions received. The FlexiFonds funds are the only entities that can hold the Class C shares issued by the Fonds and the number, balance and issuance and redemption transactions for the year are presented in the Consolidated Statements of Changes in Net Assets. The transactions on units of the FlexiFonds funds and Class C shares of the Fonds are, as applicable, carried out at the amount of net assets per unit or net assets per share prevailing at the time of the transactions.

23. ADDITIONAL INFORMATION

The audited *Statement of Development Capital Investments, at Cost*, the *unaudited Relevé des autres investissements* and *the unaudited Index of the Share of the Fonds in Investments Made by the Specialized Funds*, *at Cost* are available at the Fonds' head office, on its website at *fondsftq.com* or *at sedar.com*.

24. CHANGE IN PRESENTATION OF COMPARATIVE INFORMATION IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – TOTAL OPERATING EXPENSES

The Fonds no longer presents its total operating expenses by function in the Consolidated Statements of Comprehensive Income. As it was the case in prior years, total operating expenses are presented by nature in Note 19. Total operating expenses. The Fonds believes that presenting its total operating expenses in the notes provides adequate information to the users of its consolidated financial statements.