FINANCIAL STATEMENTS

AS AT NOVEMBER 30, 2017

FONDS de solidarité FTQ

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Fonds de solidarité des travailleurs du Québec (F.T.Q.), which comprise the balance sheets as at November 30, 2017 and at May 31, 2017, and the statements of comprehensive income, the statements of changes in net assets and the statements of cash flows for the six-month periods ended November 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) as at November 30, 2017 and at May 31, 2017, and its financial performance and its cash flows for the six-month periods ended November 30, 2017 and 2016 in accordance with International Financial Reporting Standards (IFRS).

Signed,
Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A110972

Signed,
Raymond Chabot Grant Thornton LLP[2]

[2] CPA auditor, CA, public accountancy permit No. A120795

Montréal, December 21, 2017

BALANCE SHEETS

(in millions of Canadian dollars, except net assets per share)	Notes	November 30, 2017	May 31, 2017
Assets			
Cash		19	37
Financial instruments related to securities sold under repurchase agreements		620	411
Accounts receivable	5	255	213
Other investments	6	6,244	6,200
Development capital investments	7	8,004	7,476
Other assets	12	82	78
		15,224	14,415
Liabilities			
Notes	13	616	630
Securities sold under repurchase agreements		620	411
Accounts payable	15	200	151
Other liabilities	16	93	107
		1,529	1,299
Net assets	17	13,695	13,116
Net assets per Class A share		39.32	37.88

Commitments and contingencies (Notes 6, 7 and 19)

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

On behalf of the Board of Directors,

(signed) "Robert Parizeau" *(signed) "Gaétan Morin"*

Robert Parizeau, Director Gaétan Morin, Director

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIODS ENDED NOVEMBER 30

(in millions of Canadian dollars, except net income per share)	Notes	2017	2016
Revenues			
Interest		78	77
Dividends and distributions		98	103
Rental, fee and other income		14	6
		190	186
Gains (losses) on development capital investments, other investments and investment property			
Realized		124	81
Unrealized		297	296
Transaction costs		(1)	(1)
		420	376
Interest on notes		(12)	(9)
		598	553
Total operating expenses	20		
Corporate		44	37
Development capital investments and other investments		20	19
Savings market development and Economic training		25	23
		89	79
Income before income taxes		509	474
Income taxes	21	8	7
Net income		501	467
Item of other comprehensive income that will not be reclassified to net income			
Remeasurement of the net defined benefit liability, net of income taxes	22	5	3
Comprehensive income		506	470
Supplemental information			
Net income per Class A share	17	1.44	1.38

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

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE SIX-MONTH PERIODS ENDED NOVEMBER 30

(in millions of Canadian dollars)	Share capital - Class A shares Series 1	Series 2	Sub-scribed	Con-tributed surplus	Retained earnings	Accumu-lated other compre-hensive income	Net assets (Note 17)
2017							
Balance at beginning of period	**8,946**	**90**	**1**	**707**	**3,375**	**(3)**	**13,116**
Net income					501		501
Other comprehensive income						5	5
Share issues	322	6					328
Net change in share subscriptions			1				1
Share redemptions	(181)	(2)		(14)	(66)		(263)
Change in outstanding redemptions	6			–	1		7
Transfers	41				(41)		–
Balance at end of period	**9,134**	**94**	**2**	**693**	**3,770**	**2**	**13,695**
2016							
Balance at beginning of period	8,435	82	1	745	2,494	(7)	11,750
Net income					467		467
Other comprehensive income						3	3
Share issues	278	5					283
Net change in share subscriptions			–				–
Share redemptions	(187)	(3)		(16)	(54)		(260)
Change in outstanding redemptions	1			–	–		1
Transfers	50				(50)		–
Balance at end of period	8,577	84	1	729	2,857	(4)	12,244

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

STATEMENTS OF CASH FLOWS

FOR THE SIX-YEARS PERIODS ENDED NOVEMBER 30

(in millions of Canadian dollars)	2017	2016
Operating activities		
Net income	501	467
Non-cash items		
Stock dividends and distributions in kind	(1)	(6)
Interest capitalized on notes	12	9
Amortization of premiums and discounts	6	6
(Gains) losses on development capital investments, other investments and investment property		
Realized	(124)	(81)
Unrealized	(297)	(296)
Post-employment benefits	5	4
Depreciation of property and equipment and amortization of intangible assets	3	3
Deferred income taxes	(2)	2
	103	108
Changes in non-cash items		
Accounts receivable	2	7
Income taxes	(5)	(6)
Accounts payable	(2)	(4)
Other	(3)	9
	95	114
Acquisition of development capital investments	(425)	(383)
Proceeds of disposal of development capital investments	254	214
Acquisition of other investments	(2,785)	(2,322)
Proceeds of disposal of other investments	2,809	2,338
Increase in notes	75	170
Repayment of notes	(101)	(140)
	(78)	(9)
Financing activities		
Shares issued and subscribed	329	283
Shares redeemed	(263)	(262)
	66	21
Investing activity		
Acquisition of property and equipment and intangible assets	(6)	(2)
Increase (decrease) in cash	(18)	10
Cash at beginning of period	37	13
Cash at end of period	19	23

Supplemental information (amounts included in operating activities)		
Interest received	86	77
Dividends and distributions received	98	98
Income taxes paid	15	14

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

NOTES TO 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 objectives are:

- to invest in Québec business entreprises and provide them with services in order to create, maintain or protect jobs;
- to promote the training of workers in economic matters to enable them to increase their influence on Québec's economic development;
- to stimulate the Québec economy by making strategic investments that will be of benefit to Québec workers and business entreprises;
- to promote the development of qualified business enterprises by inviting workers to participate in that development by purchasing the 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

1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been approved for issue on December 21, 2017 by the Board of Directors of the Fonds.

2. MEASUREMENT BASIS

These 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 item 6 of this note. These separate financial statements are the only financial statements presented by the Fonds.

3. INVESTMENT ENTITY

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

- the Fonds obtains capital from many investors for the purpose of managing their savings;
- the Fonds 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
- the Fonds measures and evaluates the performance of its investments on a fair value basis.

Consequently, the Fonds does not prepare consolidated financial statements.

4. BALANCE SHEET PRESENTATION

The Fonds presents its Balance Sheet in a decreasing order of liquidity. All the assets and liabilities of the Fonds are non-current assets and liabilities as they are not mainly held for trading, 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), 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.

5. SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recognized at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. FINANCIAL INSTRUMENTS – RECOGNITION AND CLASSIFICATION

Financial instruments are recognized at fair value at the transaction date, when the Fonds becomes a 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.

Financial assets and liabilities are classified in various categories based on their characteristics and the Fonds' intention upon their acquisition and their issuance. Development capital investments, other investments, accounts receivable relating to development capital investments and other investments sold, loans included in accounts receivable – other, 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 are all financial instruments designated as at fair value through profit or loss. These financial instruments are part of a managed portfolio whose performance is evaluated on a fair value basis, in accordance with a documented financial asset integrated management strategy, and information is provided internally on that basis to the Fonds' key management personnel.

Other items included in accounts receivable are classified in loans and receivables. Notes and other items included in accounts payable are classified in other financial liabilities. These financial instruments are recognized at amortized cost, which approximates their fair value given their nature and short-term maturity.

Financial liabilities are derecognized when the obligation is extinguished, which is when the obligation is discharged or cancelled or expires.

7. 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.

a) 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.

b) 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.

i) 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.

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT (CONTINUED)

b) Fair value of assets and liabilities that are not traded on active markets (CONTINUED)

i) Unlisted shares and units (CONTINUED)

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.

ii) Loans and advances

The fair value of secured and unsecured loans and advances is determined by discounting the contractual cash flows expected to be received by the Fonds using a discount rate that reflects the return that the Fonds would require given the credit risk of the investee. Certain loans and advances to a wholly-owned company are considered as quasi-equity, and their fair value is determined using the adjusted net asset technique.

iii) Guarantees and suretyships

When it is likely that the Fonds will have to disburse an amount on a guarantee or a suretyship it granted, an asset-based approach and a liquidation value technique are used to estimate the amount of the liability to be recognized.

iv) 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.

v) 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.

8. SECURITIES LENDING, SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS 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 purchases and sales of securities with a simultaneous commitment to resell and repurchase them at a specified price and date. Reverse repurchase agreements and repurchase agreements are recognized as secured lending and borrowing transactions. Reverse repurchase agreements are recorded on the Balance Sheet at their fair value, while repurchase agreements are recorded on the Balance Sheet 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 Rental, fee and other income. As at November 30, 2017 and May 31, 2017, the Fonds had no securities purchased under reverse repurchase agreements.

9. INVESTMENT PROPERTY

Investment property is property held by the Fonds for renting and value appreciation purposes. The investment property is occupied by tenants. The Fonds presents its investment property using the fair value model. Fair value is measured at each reporting date, and any change in fair value is recognized in net income.

The fair value used is determined using the discounted cash flow technique, whereby fair value represents the aggregate of the present value of projected cash flows and the reversion value at the end of the projection period. To ensure that such fair value is appropriate, the result is compared with other techniques, such as the direct discounting technique, under which an overall discount rate is applied to normalized net operating income, and the direct comparison method, under which the most likely selling price is estimated by comparing and analyzing real estate transactions involving similar properties.

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. CASH

Cash includes bank accounts used in operating, processing transactions on share capital and managing development capital investments and other investments.

11. 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 methods, periods and annual rates:

	Methods	Periods/rates
Property and equipment		
Buildings	Straight-line	15 to 60 years
Office furniture and equipment	Diminishing balance	20%
Computer hardware	Straight-line	4 years
Intangible assets		
Information systems development	Straight-line	3 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 method 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 the recoverable amount, items of property and equipment and intangible assets are aggregated at the lowest level for which identifiable cash flows are independent from the cash flows from other groups of items of property and equipment or intangible assets. The Fonds assesses possible reversals when events or circumstances warrant it.

12. 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 Statement of Changes in Net Assets. Remeasurements of the net defined benefit liability comprise actuarial gains and losses as well as the return on plan assets, excluding 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.

13. SHARE CAPITAL

The Fonds' Class A shares are puttable (redeemable at the option of the holder), subject to certain conditions, and are classified in net assets as they have all the following features:

- they entitle the holder to a pro rata share of the Fonds' net assets in the event of the Fonds' liquidation;
- they are in a class of instruments that is subordinate to all other classes of instruments of the Fonds;
- they have features that are identical to those of all the other instruments of this class;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. SHARE CAPITAL (CONTINUED)

- apart from the contractual obligation for the Fonds to repurchase or redeem the instrument for cash or another financial asset, they do 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 are potentially unfavourable to the entity, and they are not a contract that will or may be settled in the Fonds' own equity instruments;
- the total expected cash flows attributable to the shares over their life are based substantially on the change in net assets.

Share issues and redemptions are recognized as transactions on net assets. The consideration received for share issues is included in share capital. Share redemptions are recognized when the requests are approved under redemption criteria at the current redemption value, and shares are derecognized based on average cost.

14. 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 as translation differences on cash, and other translation differences are presented in net income under Gains (losses) on development capital investments, other investments and investment property.

15. REVENUE RECOGNITION

a) 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.

b) Dividends and distributions

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

c) Rental, fee and other income

Rental income is recognized on a straight-line basis over the term of the lease, while fee and other income are recognized on an accrual basis.

d) 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 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.

16. 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 period, calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period, 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. INCOME TAXES (CONTINUED)

The Fonds is subject to federal and Québec income taxes. It is also subject to the tax rules applicable to mutual fund corporations. For purposes of the federal income tax, the Fonds can, in particular, 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. 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.

17. NET INCOME PER CLASS A SHARE

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

18. ACCOUNTING STANDARDS ISSUED AS AT NOVEMBER 30, 2017 BUT NOT YET ADOPTED

As at the date of authorization of these financial statements, new standards and amendments to existing standards had been issued by the International Accounting Standards Board (IASB) but were not effective. Information on those that might be relevant to the financial statements of the Fonds is provided below.

a) **IFRS 9 – Financial Instruments**

The IASB issued the final version of the financial instrument standard dealing with classification, measurement, impairment and hedge accounting. This standard is effective for annual periods beginning on or after January 1, 2018. Following its analysis of IFRS 9, the Fonds concluded that adopting this standard will not have any material impact on the measurement and recognition of financial assets and liabilities.

b) **IFRS 15 – Revenue from Contracts with Customers**

The IASB issued IFRS 15, which supersedes IAS 18 *Revenue* and IAS 11 *Construction Contracts*. This new standard establishes a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments. The core principle of this new standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue. This standard is effective for annual periods beginning on or after January 1, 2018. The Fonds is currently analyzing the impact of applying this standard.

c) **IFRS 16 – Leases**

The IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors and supersedes IAS 17 *Leases*. The standard eliminates the current requirement for lessees to classify leases as either finance leases or operating leases by introducing an accounting model for lessees that requires recognizing right-of-use assets and lease liabilities on the balance sheet for all leases (subject to limited exceptions for short-term leases and leases of low value assets). Lessees will afterwards have to recognize in net income, a depreciation expense for right-of-use assets and interest expense on lease liabilities. IFRS 16 does not include significant changes to the accounting treatment by lessors. This standard is effective for annual periods beginning on or after January 1, 2019. The Fonds is currently analyzing the impact of applying this standard.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of 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 financial statements for the period during which such changes are made. The Fonds believes that the underlying assumptions are appropriate and that, accordingly, its financial statements present fairly its financial position and performance. The following paragraphs present an analysis of the most significant critical accounting estimates and judgments made by the Fonds in preparing its financial statements.

NOTES TO FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

1. 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 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.

2. FAIR VALUE MEASUREMENT OF THE INVESTMENT PROPERTY

The Fonds must make assumptions and use estimates in measuring the fair value of its investment property. These assumptions include the internal rate of return and the capitalization rate. The investment property is measured based on its highest and best use. The Fonds uses a firm of independent real estate appraisal experts to determine fair value and approves the reasonableness of the assumptions used.

3. 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 Balance Sheet could substantially change.

4. FINANCIAL INSTRUMENT RISKS

Risks arising from financial instruments are an integral part of the audited financial statements and are discussed in the audited "Risk management" section of the *Interim Management Discussion and Analysis for the Six-month Period Ended November 30, 2017*, which is available at the Fonds' head office, on its website at *fondsftq.com* or at *sedar.com*.

NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS RECEIVABLE

(in thousands $)	**November 30, 2017**	May 31, 2017
Accounts receivable relating to development capital investments and other investments sold	**162,263**	118,894
Accrued dividends and interest	**71,803**	74,831
Other	**20,603**	19,909
	254,669	213,634

Accounts receivable maturing in more than twelve months amounts to $28.4 million (May 31, 2017: $43.4 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.*

	November 30, 2017			May 31, 2017		
(in thousands $)	**Cost**	**Unrealized appreciation (depreciation)**	**Fair value**	Cost	Unrealized appreciation (depreciation)	Fair value
Listed shares and unlisted units	**2,249,615**	**891,613**	**3,141,228**	2,299,106	875,614	3,174,720
Bonds	**2,751,680**	**73,573**	**2,825,253**	2,643,320	116,879	2,760,199
Money market instruments	**276,989**	**296**	**277,285**	263,025	306	263,331
	5,278,284	**965,482**	**6,243,766**	5,205,451	992,799	6,198,250
Derivative financial instruments	**–**	**542**	**542**	–	1,290	1,290
	5,278,284	**966,024**	**6,244,308**	5,205,451	994,089	6,199,540

Other investments include securities denominated in foreign currencies with a fair value of $2,316.0 million (May 31, 2017: $2,400.4 million), mainly including $1,409.6 million (May 31, 2017: $1,440.8 million) in U.S. dollars, $241.1 million (May 31, 2017: $249.6 million) in euros, $219.7 million (May 31, 2017: $233.4 million) in yens and $139.4 million (May 31, 2017: $157.2 million) in pounds sterling.

6. OTHER INVESTMENTS (CONTINUED)

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
November 30, 2017							
Fair value	**47,766**	**806,295**	**904,936**	**477,600**	**449,826**	**138,830**	**2,825,253**
Cost	**47,695**	**806,149**	**899,391**	**438,415**	**423,866**	**136,164**	**2,751,680**
Par value	**47,543**	**801,701**	**881,055**	**373,006**	**387,055**	**131,840**	**2,622,200**
Average effective rate (%)	**1.4**	**2.0**	**2.5**	**3.7**	**3.4**	**4.1**	**2.8**
Average nominal rate (%)	**2.0**	**2.4**	**2.9**	**5.3**	**4.0**	**4.2**	**3.3**
May 31, 2017							
Fair value	38,610	889,531	773,634	394,645	525,767	138,012	2,760,199
Cost	38,605	877,591	750,786	356,740	485,645	133,953	2,643,320
Par value	38,560	856,746	730,509	309,558	433,542	129,940	2,498,855
Average effective rate (%)	1.0	1.8	2.5	3.6	3.5	4.2	2.7
Average nominal rate (%)	1.6	2.7	3.0	5.0	4.2	4.4	3.4

MONEY MARKET INSTRUMENTS

(in thousands $)	Less than 1 month	1 to 6 months	6 months and more	Total
November 30, 2017				
Fair value	**75,361**	**182,637**	**19,287**	**277,285**
Average effective rate (%)	**1.2**	**1.1**	**1.2**	**1.2**
May 31, 2017				
Fair value	102,956	158,221	2,154	263,331
Average effective rate (%)	0.7	0.7	0.9	0.7

NOTES TO FINANCIAL STATEMENTS

6. OTHER INVESTMENTS (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

(in thousands $)	Less than 1 month	1 to 6 months	6 months and more	Total
November 30, 2017				
Fair value[1]				
Stock option contracts				
Purchased call options			354	354
Foreign currency forward contracts				
Sales	(1,324)			(1,324)
Interest rate forward contracts	112			112
	(1,212)		354	(858)
Notional amount				
Stock option contracts				
Purchased call options			1	1
Foreign currency forward contracts				
Sales	55,989			55,989
Interest rate forward contracts	105,832			105,832
May 31, 2017				
Fair value[1]				
Stock option contracts				
Purchased call options			354	354
Foreign currency forward contracts				
Sales	540			540
Interest rate forward contracts	(74)			(74)
	466		354	820
Notional amount				
Stock option contracts				
Purchased call options			1	1
Foreign currency forward contracts				
Sales	67,952			67,952
Interest rate forward contracts	87,802			87,802

1. The fair value of instruments with positive values is $0.5 million (May 31, 2017: $1.3 million) and is presented under Other investments. The fair value of those with negative values is $1.4 million (May 31, 2017: $0.5 million) and is presented under Accounts payable.

6. OTHER INVESTMENTS (CONTINUED)

BREAKDOWN OF FAIR VALUE BY INDUSTRY SEGMENT

(in thousands $)	Energy and materials	Indus-trials	Consumer discretionary and consumer staples	Financials, real estate and utilities	Information technology, telecommuni-cations services and healthcare	Govern-ments and govern-ment agencies	Total
November 30, 2017							
Listed shares and unlisted units	**532,132**	**317,089**	**576,415**	**883,460**	**832,132**		**3,141,228**
Bonds	**93,608**	**51,833**	**63,669**	**663,828**	**64,778**	**1,887,537**	**2,825,253**
Money market instruments		**24,269**		**97,380**		**155,636**	**277,285**
Fair value	**625,740**	**393,191**	**640,084**	**1,644,668**	**896,910**	**2,043,173**	**6,243,766**
Funds committed but not disbursed[1]				**18,883**			**18,883**
	625,740	**393,191**	**640,084**	**1,663,551**	**896,910**	**2,043,173**	**6,262,649**
May 31, 2017							
Listed shares and unlisted units	540,541	323,105	625,926	843,592	841,556		3,174,720
Bonds	95,729	47,445	64,399	635,751	64,498	1,852,377	2,760,199
Money market instruments		36,491		77,270		149,570	263,331
Fair value	636,270	407,041	690,325	1,556,613	906,054	2,001,947	6,198,250
Funds committed but not disbursed[1]				19,822			19,822
	636,270	407,041	690,325	1,576,435	906,054	2,001,947	6,218,072

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, having a weighted average maturity of 3.3 years (May 31, 2017: 3.8 years), 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.*

	November 30, 2017			May 31, 2017		
(in thousands $)	Cost	Unrealized appreciation (depreciation)	Fair value	Cost	Unrealized appreciation (depreciation)	Fair value
Unsecured						
Listed shares	1,094,222	328,799	1,423,021	1,025,178	262,006	1,287,184
Unlisted shares and units	3,854,963	1,463,998	5,318,961	3,731,024	1,192,396	4,923,420
Loans, bonds and advances	1,218,637	3,836	1,222,473	1,206,738	19,852	1,226,590
Secured						
Loans	45,409	(6,101)	39,308	45,217	(6,205)	39,012
	6,213,231	1,790,532	8,003,763	6,008,157	1,468,049	7,476,206

Development capital investments include securities denominated in foreign currencies, mainly the U.S. dollar, with a fair value of $728.3 million (May 31, 2017: $521.5 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.

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
November 30, 2017							
Unsecured	4,900	161,103	3,950	154,276	456,679	441,565	1,222,473
Average effective rate (%)	10.0	4.1	7.9	6.2	7.5	6.7	
Secured	1,000	25,000		4,187	9,121		39,308
Average effective rate (%)	5.0	6.5		13.0	6.8		
May 31, 2017							
Unsecured	3,075	168,754	7,192	149,682	415,154	482,733	1,226,590
Average effective rate (%)	10.3	3.7	8.0	6.8	7.4	6.8	
Secured		25,000		2,262	11,750		39,012
Average effective rate (%)		6.5		12.0	7.2		

Based on agreements in effect, principal receipts expected over the next twelve months total $206.5 million (May 31, 2017: $184.5 million).

7. DEVELOPMENT CAPITAL INVESTMENTS (CONTINUED)

BREAKDOWN BY INDUSTRY SEGMENT

(in thousands $)	Energy and materials	Industrials	Consumer discretionary and consumer staples	Financials, real estate and utilities	Information technology, telecommuni-cations services and healthcare	Total
November 30, 2017						
Cost	**754,623**	**1,052,279**	**1,272,273**	**2,171,666**	**962,390**	**6,213,231**
Unrealized appreciation (depreciation)	**111,958**	**243,836**	**376,900**	**844,828**	**213,010**	**1,790,532**
Fair value	**866,581**	**1,296,115**	**1,649,173**	**3,016,494**	**1,175,400**	**8,003,763**
Funds committed but not disbursed[1]	**93,451**	**308,157**	**144,592**	**223,460**	**233,923**	**1,003,583**
Guarantees and suretyships[2]		**1,500**	**9,940**			**11,440**
	960,032	**1,605,772**	**1,803,705**	**3,239,954**	**1,409,323**	**9,018,786**
May 31, 2017						
Cost	689,548	1,031,184	1,222,895	2,182,244	882,286	6,008,157
Unrealized appreciation (depreciation)	96,742	180,231	366,732	756,031	68,313	1,468,049
Fair value	786,290	1,211,415	1,589,627	2,938,275	950,599	7,476,206
Funds committed but not disbursed[1]	89,842	250,121	141,173	235,424	279,624	996,184
Guarantees and suretyships[2]			10,411			10,411
	876,132	1,461,536	1,741,211	3,173,699	1,230,223	8,482,801

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 $370.0 million (May 31, 2017: $310.5 million) represents credit facilities and project financing for operating companies, having a weighted average maturity of 16 months (May 31, 2017: 14 months) and an amount of $633.6 million (May 31, 2017: $685.7 million) represents commitments that will be disbursed to investment entities in tranches, having a weighted average maturity of 7.5 years (May 31, 2017: 7.0 years). Commitments amounting to $129.8 million (May 31, 2017: $169.2 million) are denominated in foreign currencies, mainly the U.S. dollar.
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.

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 November 30, 2017 and May 31, 2017, there are no provisions related to 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.

NOTES TO FINANCIAL STATEMENTS

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 financial statements before offsetting. The fair value of derivative financial instrument assets subject to such arrangements is $0.2 million (May 31, 2017: $0.8 million), and the fair value of derivative financial instrument liabilities subject to such arrangements is $1.4 million (May 31, 2017: $0.5 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 November 30, 2017 and May 31, 2017, no amount was set off in the Balance Sheet.

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 the most representative price within the bid-ask spread observed on active markets for identical 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 each reporting period. Transfers between hierarchy levels are measured at fair value at the beginning of the year.

NOTES TO FINANCIAL STATEMENTS

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CLASSIFICATION (CONTINUED)

(in thousands $)	Level 1	Level 2	Level 3	Total
November 30, 2017				
Financial assets				
Development capital investments				
Unsecured				
Listed shares	1,420,854	2,167		1,423,021
Unlisted shares and units		4,262	5,314,699	5,318,961
Loans, bonds and advances		421,058	801,415	1,222,473
Secured				
Loans			39,308	39,308
	1,420,854	427,487	6,155,422	8,003,763
Other investments				
Listed shares and unlisted units	3,077,752		63,476	3,141,228
Bonds		2,825,253		2,825,253
Money market instruments		277,285		277,285
Derivative financial instruments		542		542
	3,077,752	3,103,080	63,476	6,244,308
Accounts receivable relating to development capital investments and other investments sold		162,263		162,263
Cash	18,969			18,969
Financial instruments related to securities sold under repurchase agreements		619,717		619,717
Financial liabilities				
Accounts payable relating to development capital investments and other investments purchased		(154,798)		(154,798)
Derivative financial instruments		(1,400)		(1,400)
Securities sold under repurchase agreements		(619,717)		(619,717)

In addition to the transfers presented in the LEVEL 3 – RECONCILIATION table found on page 22, during the six-month period ended November 30, 2017, financial instruments having a fair value of $19.2 million were transferred from Level 2 to Level 1 as their fair value is now based on a price observed on an active market.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

CLASSIFICATION (CONTINUED)

(in thousands $)	Level 1	Level 2	Level 3	Total
May 31, 2017				
Financial assets				
Development capital investments				
Unsecured				
Listed shares	1,267,890	19,294		1,287,184
Unlisted shares and units			4,923,420	4,923,420
Loans, bonds and advances		435,488	791,102	1,226,590
Secured				
Loans			39,012	39,012
	1,267,890	454,782	5,753,534	7,476,206
Other investments				
Listed shares and unlisted units	3,119,035		55,685	3,174,720
Bonds		2,760,199		2,760,199
Money market instruments		263,331		263,331
Derivative financial instruments		1,290		1,290
	3,119,035	3,024,820	55,685	6,199,540
Accounts receivable relating to development capital investments and other investments sold		118,894		118,894
Cash	37,320			37,320
Financial instruments related to securities sold under repurchase agreements		411,145		411,145
Financial liabilities				
Accounts payable relating to development capital investments and other investments purchased		(106,008)		(106,008)
Derivative financial instruments		(470)		(470)
Securities sold under repurchase agreements		(411,145)		(411,145)

During the twelve-month period ended May 31, 2017, there were no transfers of financial instruments between Level 1 and Level 2.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

LEVEL 3 – RECONCILIATION

DEVELOPMENT CAPITAL INVESTMENTS

(in thousands $)	Unlisted shares and units	Loans, bonds and advances Unsecured	Loans, bonds and advances Secured	Total
November 30, 2017				
Fair value as at May 31, 2017	**4,923,420**	**791,102**	**39,012**	**5,753,534**
Purchases	**196,798**	**111,858**	**3,425**	**312,081**
Sales and settlements	**(45,034)**	**(96,454)**	**(1,371)**	**(142,859)**
Realized gains (losses)	**(14,359)**	**(41)**	**(1,862)**	**(16,262)**
Unrealized gains (losses)	**273,281**	**(5,050)**	**104**	**268,335**
Transfers out of Level 3[1]	**(19,407)**	**–**	**–**	**(19,407)**
Fair value as at November 30, 2017	**5,314,699**	**801,415**	**39,308**	**6,155,422**
Unrealized gains (losses) on development capital investments held as at November 30, 2017	**255,247**	**(4,125)**	**(2,101)**	**249,021**
November 30, 2016				
Fair value as at May 31, 2016	4,051,765	1,066,692	34,422	5,152,879
Purchases	215,427	41,414	6,325	263,166
Sales and settlements	(109,630)	(26,507)	(5,000)	(141,137)
Realized gains (losses)	19,801	(5,057)		14,744
Unrealized gains (losses)	145,867	10,335	1,578	157,780
Fair value as at November 30, 2016	4,323,230	1,086,877	37,325	5,447,432
Unrealized gains (losses) on development capital investments held as at November 30, 2016	162,774	(787)	1,578	163,565

1. During the six-month period ended November 30, 2017, financial instruments having a fair value of $13.7 million were transferred to Level 1 as their fair value is now based on a price observed on an active market, and financial instruments having a fair value of $5.7 million were transferred to Level 2 as their measurement method is now based on observable market information.

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.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

LEVEL 3 – RECONCILIATION (CONTINUED)

OTHER INVESTMENTS

(in thousands $)	Unlisted units	Bonds	Total
November 30, 2017			
Fair value as at May 31, 2017	55,685		55,685
Purchases	166		166
Sales and settlements	(101)		(101)
Realized gains (losses)	14		14
Unrealized gains (losses)	7,712		7,712
Fair value as at November 30, 2017	63,476		63,476
Unrealized gains (losses) on other investments held as at November 30, 2017	7,712		7,712
November 30, 2016			
Fair value as at May 31, 2016	52,310	11,728	64,038
Purchases	1,692		1,692
Sales and settlements	(467)	(1,133)	(1,600)
Realized gains (losses)	54	(6)	48
Unrealized gains (losses)	(2,202)	327	(1,875)
Fair value as at November 30, 2016	51,387	10,916	62,303
Unrealized gains (losses) on other investments held as at November 30, 2016	(2,202)	327	(1,875)

9. 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)
November 30, 2017				
Development capital investments				
Unlisted shares and units	**871,006**	Capitalized cash flows	Capitalization rate	**5.1% – 14.9% (7.9%)**
			EBITDA margin %[1]	**3.6% – 35.9% (15.0%)**
	481,985	Discounted cash flows	Required rate of return	**4.0 % – 20.3% (11.4%)**
	3,320,592	Adjusted net assets	Adjusted net assets	**N/A[2]**
	275,624	Recent transactions		
	351,333	Bid value		
	14,159	Other[3]		
Loans, bonds and advances	**816,094**	Discounted cash flows	Required rate of return	**3.0% – 20.0% (7.2%)**
	24,629	Other		
	6,155,422			
Other investments				
Unlisted units	**63,476**	Manager's quote		
May 31, 2017				
Development capital investments				
Unlisted shares and units	878,397	Capitalized cash flows	Capitalization rate	5.1% – 15.7% (7.9%)
			EBITDA margin %[1]	3.6% – 38.6% (16.1%)
	470,833	Discounted cash flows	Required rate of return	3.5% – 22.6% (10.0%)
	3,258,200	Adjusted net assets	Adjusted net assets	N/A[2]
	284,255	Recent transactions		
	4,533	Bid value		
	27,202	Other[3]		
Loans, bonds and advances	809,620	Discounted cash flows	Required rate of return	3.0% – 19.0% (7.0%)
	20,494	Other		
	5,753,534			
Other investments				
Unlisted units	55,685	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.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Sensitivity analyses have been performed for financial instruments measured using the capitalized cash flow and the discounted cash flow techniques, for which the judgment of the Fonds' qualified valuator is significantly important in determining fair value.

The adjusted net assets, recent transactions and redemption value valuation techniques are not suited for sensitivity analysis as they use few or no underlying assumptions to determine fair value. The adjusted net assets technique is the most commonly used of these techniques. In most cases, it is used to determine the fair value of investment fund units. Such fair value is essentially based on the share in limited partners' equity appearing in the most recent audited financial statements of these funds, adjusted to take into account interim results and subsequent transactions carried out up to the valuation date.

The Fonds uses to a lesser extent other valuation techniques that rely on the valuator's judgment and use certain assumptions, namely the expected transaction value, liquidation value and bid value techniques. These techniques were used to measure financial instruments having an aggregate fair value of $381.2 million as at November 30, 2017 (May 31, 2017: $31.6 million).). In general, management believes that performing sensitivity analyses on these valuation techniques is not relevant given the low materiality of the financial instruments measured using these techniques. However, as financial instruments measured using the bid value method were material as at November 30, 2017, sensitivity analyses were performed on these instruments, and management determined that using reasonably plausible alternative assumptions would not change fair value significantly.

Our sensitivity analyses on loans, bonds and advances measured using the discounted cash flow technique lead us to conclude that a +/- 0.50% change in the required rate of return would result in a change in fair value that would not be material to net income and total assets and liabilities.

For unlisted shares and units measured using the capitalized cash flow and the discounted cash flow techniques, using different variables related to maintainable EBITDA as well as capitalization and discount rates could result in a material increase or decrease in fair value. Since the assumptions are highly interrelated, a sensitivity analysis that isolates the impact of only one of these assumptions on the unlisted shares and units portfolio would not represent fairly the sensitivity of the results.

In practice, the Fonds' qualified valuators determine a range of plausible values for each of the securities being valued and the mid-range point is generally used for preparing financial statements. Accordingly, for a given investment, the low end of the range reflects the worst-case scenario, while the high end of the range reflects the best-case scenario. This practice is the most common method used to estimate the overall financial impact of changing the main assumptions by other reasonably acceptable assumptions. Since the portfolio is diversified in terms of industries, maturities and sizes, estimating sensitivity to the various assumptions used by aggregating all the worse-case and best-case scenarios is not reasonable. Using alternative assumptions is unlikely to result in an undervaluation or overvaluation of all investments. Based on a probabilistic approach, management determined that using reasonably plausible alternative assumptions would not change fair value significantly.

10.INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Further to its quantitative and qualitative analyses, management determined that the Fonds controls or exercises significant influence over operating companies and investment entities:

	November 30, 2017		May 31, 2017	
	Number	**Fair value (in thousands $)**	Number	Fair value (in thousands $)
Subsidiaries				
Operating companies	**17**	**1,262,155**	17	1,229,070
Investment entities	**12**	**1,318,829**	12	1,268,052
Associates				
Operating companies	**75**	**1,181,112**	76	1,017,620
Investment entities	**27**	**371,599**	27	395,201

The principal place of business of the majority of subsidiaries and associates is in Québec. Subsidiaries are entities that the Fonds controls when it has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to affect such returns as a result of its power over the entity. Generally, the proportion of ownership interests held by the Fonds is greater than 50% for subsidiaries and between 20% and 49% for associates.

10.INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Interests in the share capital of operating companies are in the form of common shares, 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 November 30, 2017, the Fonds indirectly had 82 additional subsidiaries and 178 additional associates under this criterion (May 31, 2017: 85 subsidiaries and 173 associates).

11.SECURITIES LENDING

As part of the securities lending program, the Fonds receives, in exchange for the securities loaned, guarantees or assets, mainly government and corporate bonds, equivalent to the minimum percentage prescribed by any applicable law or agreement or to a percentage that may vary according to best practices. Depending on the securities loaned, this percentage is at least 102% as at November 30, 2017 and May 31, 2017. The fair value of the securities loaned is $622.5 million (May 31, 2017: $728.3 million).

12.OTHER ASSETS

(in thousands $)	Notes	November 30, 2017	May 31, 2017
Income taxes		**3,034**	979
Investment property	12.1	**29,374**	29,374
Property and equipment	12.2	**40,793**	40,955
Intangible assets	12.3	**8,722**	5,553
Deferred incomes taxes	21	**550**	898
		82,473	77,759

1. INVESTMENT PROPERTY

The investment property held by the Fonds comprises rental space. The following table presents the changes in the fair value of the investment property for the period or the year ended:

(in thousands $)	November 30, 2017	May 31, 2017
Balance at beginning of period	**29,374**	30,375
Change in fair value recognized in net income	**–**	(1,001)
Balance at end of period	**29,374**	29,374

12. OTHER ASSETS (CONTINUED)

1. INVESTMENT PROPERTY (CONTINUED)

UNOBSERVABLE INPUTS

The investment property measured at fair value is an asset categorized within Level 3 of the fair value hierarchy, as significant unobservable inputs are used in the valuation techniques applied. Main unobservable inputs used in measuring the investment property are as follows:

	Fair value (in thousands $)	Valuation technique	Unobservable inputs	Input value
November 30, 2017				
Investment property	**29,374**	Discounted cash flows	Internal rate of return	**7.25%**
			Capitalization rate	**6.50%**
May 31, 2017				
Investment property	29,374	Discounted cash flows	Internal rate of return	7.25%
			Capitalization rate	6.50%

2. PROPERTY AND EQUIPMENT

(in thousands $)	Buildings	Office furniture and equipment	Computer hardware	Total
November 30, 2017				
Cost	**42,560**	**12,401**	**20,134**	**75,095**
Accumulated depreciation	**(7,708)**	**(10,334)**	**(16,260)**	**(34,302)**
Net carrying amount	**34,852**	**2,067**	**3,874**	**40,793**
Change during the period				
Net carrying amount as at May 31, 2017	**35,485**	**2,173**	**3,297**	**40,955**
Acquisitions		**90**	**1,332**	**1,422**
Depreciation	**(633)**	**(196)**	**(755)**	**(1,584)**
Net carrying amount as at November 30, 2017	**34,852**	**2,067**	**3,874**	**40,793**
May 31, 2017				
Cost	42,560	12,330	18,831	73,721
Accumulated depreciation	(7,075)	(10,157)	(15,534)	(32,766)
Net carrying amount	35,485	2,173	3,297	40,955
Change during the year				
Net carrying amount as at May 31, 2016	38,521	2,338	3,202	44,061
Acquisitions		326	1,638	1,964
Depreciation	(3,036)	(491)	(1,543)	(5,070)
Net carrying amount as at May 31, 2017	35,485	2,173	3,297	40,955

As at November 30, 2017 and May 31, 2017, no item of property and equipment was impaired. In addition, as at November 30, 2017 and May 31, 2017, the Fonds had no significant contractual commitment for the acquisition of property and equipment. The depreciation expense is presented under Corporate in Total operating expenses in the Statements of Comprehensive Income.

NOTES TO FINANCIAL STATEMENTS

12. OTHER ASSETS (CONTINUED)

3. INTANGIBLE ASSETS

(in thousands $)	Information system development November 30, 2017	 May 31, 2017
Cost	36,603	32,136
Accumulated amortization	(27,881)	(26,583)
Net carrying amount	8,722	5,553
Change during the period or year		
Net carrying amount at beginning	5,553	5,564
Acquisitions	4,467	3,184
Amortization	(1,298)	(3,195)
Net carrying amount at the end	8,722	5,553

As at November 30, 2017 and May 31, 2017, no intangible asset was impaired. In addition, as at November 30, 2017 and May 31, 2017, the Fonds had no significant contractual commitment for the acquisition of intangible assets. The amortization expense is presented under Corporate in Total operating expenses in the Statements of Comprehensive Income.

13. 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 November 30, 2017 and May 31, 2017, the interest rate is 4%.

14. CREDIT FACILITY

As at November 30, 2017 and May 31, 2017, 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 six-month period ended November 30, 2017 and the financial year ended May 31, 2017.

15. ACCOUNTS PAYABLE

(in thousands $)	November 30, 2017	May 31, 2017
Accounts payable relating to development capital investments and other investments purchased	154,798	106,008
Accrued expenses and other	43,543	45,009
Derivative financial instruments	1,400	470
	199,741	151,487

16. OTHER LIABILITIES

(in thousands $)	Notes	November 30, 2017	May 31, 2017
Share redemptions payable		18,634	25,828
Income taxes		–	3,299
Net defined benefit liability	22	70,472	72,379
Deferred income taxes	21	4,446	5,045
		93,552	106,551

17.NET ASSETS

1. SHARE CAPITAL

a) Authorized

i) Class A shares

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

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

ii) 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 shares.

b) Subscribed

Subscribed capital represents money received for which no Class A share can be issued in consideration thereof pursuant to laws, policies or regulations. If applicable, these Class A shares will be issued when such laws, policies or regulations are complied with at the share value in effect at that date.

c) Redemption terms

The Fonds is required to redeem 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. The redemption price is determined semi-annually based on the value of the Fonds.

d) Contributed surplus

Contributed surplus 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.

e) Transfers

During the period, the Board of Directors approved an increase in the issued and paid-up capital on Class A shares, Series 1 of $41 million through transfers from retained earnings (November 30, 2016: $50 million).

As at November 30, 2017, the Fonds had, since its incorporation, transferred the following cumulative amounts: $2.203 million from retained earnings to share capital, $1.500 million from share capital to contributed surplus and $291 million from contributed surplus to retained earnings.

2. NET INCOME PER CLASS A SHARE

Net income per share is based on the weighted average number of Class A shares, which was 347,351,135 (November 30, 2016: 338,845,132).

NOTES TO FINANCIAL STATEMENTS

17. NET ASSETS (CONTINUED)

3. NET ASSETS – CLASS A

(in thousands)	Series 1 Number	Series 1 $	Series 2 Number	Series 2 $	Subscribed $	Total $
November 30, 2017						
Net assets as at May 31, 2017	**342,794**	**12,983,762**	**3,470**	**131,443**	**1,162**	**13,116,367**
Net income		**495,534**		**5,105**		**500,639**
Other comprehensive income		**5,341**		**55**		**5,396**
Share issues	**8,573**	**321,485**	**170**	**6,356**		**327,841**
Net change in share subscriptions					**653**	**653**
Share redemptions	**(6,888)**	**(259,454)**	**(90)**	**(3,377)**		**(262,831)**
Change in outstanding redemptions	**220**	**7,262**				**7,262**
Net assets as at November 30, 2017	**344,699**	**13,553,930**	**3,550**	**139,582**	**1,815**	**13,695,327**
November 30, 2016						
Net assets as at May 31, 2016	335,008	11,633,662	3,312	115,011	885	11,749,558
Net income		462,249		4,596		466,845
Other comprehensive income		3,266		33		3,299
Share issues	8,060	278,112	132	4,572		282,684
Net change in share subscriptions					630	630
Share redemptions	(7,419)	(256,657)	(106)	(3,684)		(260,341)
Change in outstanding redemptions	55	1,341				1,341
Net assets as at November 30, 2016	335,704	12,121,973	3,338	120,528	1,515	12,244,016

18. 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 share issues and redemptions.

1. EXTERNALLY IMPOSED REQUIREMENTS GOVERNING 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, 2017, the minimum threshold was 62% (May 31, 2016: 61%). The investment rule threshold is gradually raised (by 1% per year starting with the financial year ending May 31, 2016) to 65% in financial year ended May 31, 2020. Accordingly, the investment rule minimum threshold as at May 31, 2018 will be 63 %.

If the Fonds fails to reach this threshold, the share issues giving rise to labour-sponsored fund tax credits 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 65.7% as at May 31, 2017 (May 31, 2016: 65.4%). Since the investment rule minimum threshold was reached as at May 31, 2017, the amount of share issues giving rise to labour-sponsored fund tax credits for the financial year ending May 31, 2018 will not be limited.

2. EXTERNALLY IMPOSED REQUIREMENTS GOVERNING SHARE REDEMPTIONS

The *Taxation Act* (Québec) provides for the payment of a penalty by the Fonds when the total amount paid for purchases 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 has always complied with this limit.

19.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.

20.TOTAL OPERATING EXPENSES

	For the six-month periods ended November 30	
(in thousands $)	**2017**	2016
Salaries and benefits	**50,194**	46,001
Advertising and information	**10,444**	10,220
Professional Fees	**8,580**	4,088
Occupancy expenses and rent	**5,320**	4,613
Management fees	**4,064**	3,925
Stationery and office supplies	**3,242**	3,436
Shareholder reporting costs	**1,724**	1,342
Travel and entertainment	**1,721**	1,737
Custodial fees and trustee's fees	**559**	486
Depreciation of property and equipment	**1,584**	1,723
Amortization of intangible assets	**1,298**	1,650
	88,730	79,221

21.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 Statements of Comprehensive Income, but are presented as a deduction from income taxes payable.

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 (RDTOH). The RDTOH 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 period.

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.

21. INCOME TAXES (CONTINUED)

Income taxes on income are detailed as follows:

	For the six-month periods ended November 30	
(in thousands $)	**2017**	2016
Current	**9,558**	5,624
Deferred	**(1,558)**	1,576
	8,000	7,200

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 six-month periods ended November 30	
(in thousands $)	**2017**	2016
Income before income taxes	**508,639**	474,046
Tax rate to which the Fonds is subject	**50.4%**	50.5%
Income taxes	**256,354**	239,393
Non-taxable dividends and distributions	**(36,162)**	(39,525)
Refundable dividend tax on hand	**(13,208)**	(12,795)
Realized and unrealized capital gains (losses)		
Non-taxable portion and federal rate difference	**(121,986)**	(109,198)
Refundable federal tax	**(55,901)**	(49,960)
Québec tax deduction	**(23,478)**	(21,162)
Other items	**2,381**	447
	8,000	7,200

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

	November 30, 2017		May 31, 2017	
(in thousands $)	**Assets**	**Liabilities**	Assets	Liabilities
Development capital investments	**(4,253)**	**(7,441)**	(4,287)	(8,304)
Investment property	**(1,193)**	**(951)**	(1,154)	(922)
Property and equipment and intangible assets	**(1,779)**	**(1,463)**	(1,764)	(1,456)
Net defined benefit liability	**8,104**	**5,638**	8,324	5,790
Other	**(329)**	**(229)**	(221)	(153)
	550	**(4,446)**	898	(5,045)

22.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 at November 30, 2017.

1. 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 Fonds is responsible for these funded and unfunded plans. The Fonds set up retirement committees to manage the plans, and these committees engaged independent investment managers, actuaries and trustees to obtain professional services.

Changes in the defined benefit obligation and the fair value of plan assets during the period are as follows:

	For the six-month periods ended November 30					
	2017			2016		
(in thousands $)	**Present value of pension obligation**	**Fair value of plan assets**	**Net defined benefit liability**	Present value of pension obligation	Fair value of plan assets	Net defined benefit liability
Balance at beginning of period	**(341,715)**	**274,773**	**(66,942)**	(298,460)	234,291	(64,169)
Current service cost	**(9,249)**		**(9,249)**	(7,938)		(7,938)
Interest	**(6,160)**		**(6,160)**	(5,763)		(5,763)
Interest income		**4,810**	**4,810**		4,422	4,422
Impact on net income	**(15,409)**	**4,810**	**(10,599)**	(13,701)	4,422	(9,279)
Remeasurements						
Impact on other comprehensive income resulting from return on plan assets, excluding interest income		**6,703**	**6,703**		4,098	4,098
Fonds contributions		**5,928**	**5,928**		5,918	5,918
Employees contributions	**(2,881)**	**2,881**	**–**	(2,179)	2,179	–
Benefits paid	**2,985**	**(2,985)**	**–**	2,097	(2,097)	–
	104	**5,824**	**5,928**	(82)	6,000	5,918
Balance at end of period	**(357,020)**	**292,110**	**(64,910)**	(312,243)	248,811	(63,432)

As at November 30, 2017, the weighted average duration of the defined benefit obligation for defined benefit pension plans is 18.3 years (November 30, 2016: 17.9 years). During the next twelve months, the Fonds expects to contribute approximately $11.2 million to these pension plans.

22. POST-EMPLOYMENT BENEFITS (CONTINUED)

2. 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. Changes in the defined benefit obligation, which is equal to the defined benefit liability, during the period are as follows:

	For the six-month periods ended November 30	
	2017	2016
	Present value of obligation and net defined benefit liability	
Balance at beginning of period	**(5,437)**	(4,999)
Current service cost	**(97)**	(91)
Interest	**(96)**	(95)
Impact on net income	**(193)**	(186)
Benefits paid	**68**	49
Balance at end of period	**(5,562)**	(5,136)

As at November 30, 2017, the weighted average duration of the defined benefit obligation for post-employment insurance plan is 14.8 years (November 30, 2016: 15.1 years). During the next twelve months, the Fonds expects to contribute approximately $0.1 million to this insurance plan.

3. 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:

	November 30, 2017		November 30, 2016	
(in %)	**Pension plans**	**Insurance plan**	Pension plans	Insurance plan
Defined benefit obligation				
Rate at end of period				
Discount rate	**3.50**	**3.50**	3.75	3.75
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	**3.50**	**3.50**	3.75	3.75
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.

22.POST-EMPLOYMENT BENEFITS (CONTINUED)

4. 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 November 30, 2017		
	Change in assumption	**Increase in assumption** (impact in thousands $)	**Decrease in assumption** (impact in thousands $)
Discount rate	**0.50%**	**(26,204)**	**29,843**
Rate of increase in salaries	**0.50%**	**7,598**	**(7,560)**
Life expectancy	**1 year**	**7,446**	**(7,434)**

	Impact on the defined benefit obligation as at November 30, 2016		
	Change in assumption	Increase in assumption (impact in thousands $)	Decrease in assumption (impact in thousands $)
Discount rate	0.50%	(24,629)	28,140
Rate of increase in salaries	0.50%	6,710	(6,688)
Life expectancy	1 year	6,508	(6,513)

5. COMPOSITION OF PENSION PLAN ASSETS

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

(in %)	**November 30, 2017**	November 30, 2016
Equity mutual funds	**62.4**	62.2
Bond mutual funds	**37.4**	37.3
Cash and other	**0.2**	0.5
	100.0	100.0

6. 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.

a) **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.

b) **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.

7. REMEASUREMENT OF THE NET DEFINED BENEFIT LIABILITY

	For the six-month periods ended November 30	
(in thousands $)	**2017**	2016
Actuarial gain (loss) arising from post-employment benefits	**6,703**	4,098
Deferred income taxes	**(1,307)**	(799)
	5,396	3,299

NOTES TO FINANCIAL STATEMENTS

23.RELATED PARTY TRANSACTIONS

1. 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 six-month periods ended November 30	
(in thousands $)	**2017**	2016
Salaries and short-term benefits	**1,434**	1,352
Post-employment benefits	**827**	758
Directors' remuneration and fees[1]	**345**	319
	2,606	2,429

1. Excludes the directors' remuneration paid directly to the Fédération des travailleurs et travailleuses du Québec (FTQ) amounting to $0.3 million (November 30, 2016: $0.3 million), which is included in the amount presented in item 3 of this note.

2. TRANSACTIONS WITH RELATED PARTIES INCLUDED IN DEVELOPMENT CAPITAL INVESTMENTS

In the normal course of business, the Fonds conducts transactions with related companies that it either controls or over which it has significant influence. Many of the development capital investments are of such an amount and nature that the investee is considered a related party. The number of investments in subsidiaries and associates is presented in Note 10. The following table details the transactions carried out with all the subsidiaries and associates of the Fonds during the period and presents the end-of-year balances appearing on the Balance Sheet.

	For the six-month periods ended November 30					
	2017			2016		
(in thousands $)	**Subsi-diaries**	**Associates**	**Total**	Subsi-diaries	Associates	Total
Transactions						
Interest	**5,103**	**4,899**	**10,002**	5,005	5,025	10,030
Dividends and distributions	**5,111**	**21,316**	**26,427**	6,701	23,264	29,965
Rental, fee and other income	**1,734**	**691**	**2,425**	1,585	748	2,333
Interest expense on notes	**11,661**	**522**	**12,183**	8,457	477	8,934
Total operating expenses	**2,823**	**1,484**	**4,307**	2,520	1,319	3,839
Increase on notes	**74,441**	**90**	**74,531**	166,230	4,410	170,640
Repayment of notes	**99,687**	**1,640**	**101,327**	140,082	175	140,257
Disbursements for development capital investments	**4,451**	**91,857**	**96,308**	40,714	155,316	196,030
Receipts on development capital investments	**704**	**22,726**	**23,430**	66,251	16,770	83,021
	November 30, 2017			May 31, 2017		
Balances						
Development capital investments, at cost	**1,815,110**	**1,187,268**	**3,002,378**	1,811,363	1,087,269	2,898,632
Accounts receivable	**7,166**	**5,897**	**13,063**	4,563	4,297	8,860
Accounts payable	**106**	**923**	**1,029**	258	91	349
Notes	**589,147**	**25,862**	**615,009**	602,732	26,890	629,622
Other information						
Funds committed but not disbursed	**117,723**	**223,032**	**340,755**	121,005	234,762	355,767

23. RELATED PARTY TRANSACTIONS (CONTINUED)

2. TRANSACTIONS WITH RELATED PARTIES INCLUDED IN DEVELOPMENT CAPITAL INVESTMENTS (CONTINUED)

The Fonds engaged two of its associates to manage portfolios with assets totalling $782.1 million (May 31, 2017: $764.9 million). In addition, as at May 31, 2017 the Fonds had engaged one of these associates to temporarily manage assets amounting to $2,075.6 million.

3. OTHER TRANSACTIONS

The Fonds, of which directors are elected by the Fédération des travailleurs et travailleuses du Québec (FTQ), agreed to pay $1.5 million to the FTQ for the six-month period ended November 30, 2017 (November 30, 2016: $1.3 million) under an agreement that calls for compensation to be paid for services rendered in respect of economic training, shareholder 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 $15 million with a fair value of $11.2 million (May 31, 2017: $11.5 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 $3.3 million (May 31, 2017: $3.4 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 on the Balance Sheet.

24. 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*.