

**Capital régional et coopératif
Desjardins**

Financial Statements
June 30, 2002

August 2, 2002

Auditors' Report

To the Shareholders of Capital régional et coopératif Desjardins

We have audited the balance sheet of **Capital régional et coopératif Desjardins** (the "company") as at June 30, 2002 and the statements of earnings, shareholders' equity and cash flows for the six-month period then ended and the schedule of unsecured investments impacting on the Quebec economy as at June 30, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2002 and the results of its operations and its cash flows for the six-month period then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for the year then ended, before the restatements for the accounting change as described in note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 21, 2002. We have audited the adjustments to the 2001 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

PricewaterhouseCoopers LLP

Chartered Accountants

Capital régional et coopératif Desjardins

Balance Sheet

(in thousands of dollars, except the net value per common share)

	As at June 30, 2002 \$	As at December 31, 2001 \$ (restated – note 2)
Assets		
Unsecured investments impacting on the Quebec economy		
Investments (see Schedule)	8,203	-
Funds committed but not disbursed	6,164	-
	<u>14,367</u>	<u>-</u>
Other investments (note 4)	209,246	70,545
Accounts receivable (note 5)	2,385	20,484
Cash and cash equivalents	615	5
Software (net of accumulated amortization of \$184; December 31, 2001 – nil)	1,977	1,582
Future income taxes (note 9)	1,764	-
	<u>230,354</u>	<u>92,616</u>
Liabilities		
Deferred non-refundable grants (note 6)	6,725	8,008
Accounts payable and accrued liabilities (note 7)	106,737	5,510
Income taxes	1,836	21
	<u>115,298</u>	<u>13,539</u>
Net assets	<u>115,056</u>	<u>79,077</u>
Shareholders' Equity		
Share capital (note 8)	115,025	79,054
Retained earnings	31	23
	<u>115,056</u>	<u>79,077</u>
Number of outstanding common shares	11,503,000	7,905,000
Net value per common share	10.00	10.00

Approved by the Board of Directors

(signed) Luc Chabot, Director

(signed) Olivier Lavoie, Director

Capital régional et coopératif Desjardins

Statement of Shareholders' Equity

For the six-month period ended June 30, 2002

(in thousands of dollars)

	Share capital \$	Retained earnings \$	Shareholders' equity \$
Balance – Beginning of period	79,054	23	79,077
Shares issued	35,971	-	35,971
Net earnings for the period	-	8	8
Net change	35,971	8	35,979
Balance – End of period	115,025	31	115,056

Capital régional et coopératif Desjardins

Statement of Earnings

For the six-month period ended June 30, 2002

(in thousands of dollars, except the net earnings per common share)

	\$
Revenue	
Interest on other investments	977
Membership dues	381
Negotiation fees	104
Interest on debentures	17
	<hr/>
	1,479
	<hr/>
Expenses	
Operating expenses	1,879
Shareholder services	410
Capital tax	93
Amortization	184
Non-refundable grants (note 6)	(1,283)
	<hr/>
	1,283
	<hr/>
Earnings before income taxes	196
Income taxes (note 9)	188
	<hr/>
Net earnings for the period	8
	<hr/>
Weighted average number of common shares	9,326
Net earnings per common share	0.00

Capital régional et coopératif Desjardins

Statement of Cash Flows

For the six-month period ended June 30, 2002

(in thousands of dollars)

	\$
Cash flows from	
Operating activities	
Net earnings for the period	8
Non-cash items	
Amortization	184
Future income taxes	<u>(1,764)</u>
	(1,572)
Change in non-cash operating working capital balances (note 10 a))	<u>18,231</u>
	<u>16,659</u>
Investing activities	
Unsecured investments impacting on the Quebec economy	(8,203)
Acquisition of other investments (note 10 b))	(112,500)
Proceeds from disposal of other investments	70,545
Software	(579)
	<u>(50,737)</u>
Financing activities	
Issuance of common shares	35,971
Deferred non-refundable grants	<u>(1,283)</u>
	<u>34,688</u>
Net change in cash and cash equivalents during the period	610
Cash and cash equivalents – Beginning of period	<u>5</u>
Cash and cash equivalents – End of period	<u>615</u>
Supplementary information	
Income taxes paid	160

Capital régional et coopératif Desjardins

Schedule of Unsecured Investments Impacting on the Quebec Economy

As at June 30, 2002

(in thousands of dollars)

	Industry segment	Unsecured investments			Total \$
		Voting shares \$	Non-voting shares \$	Debentures and advances \$	
2754-1564 Québec inc. (Groupe Beaudry)	I	-	100	-	100
9116-4509 Québec inc. (Plastiques Anchor Ltée)	I	-	400	-	400
Aegera Thérapeutiques inc.	H	-	1,000	-	1,000
Aqua-Biokem BSL inc.	H	-	200	-	200
BioAxone Thérapeutique inc.	H	-	522	-	522
Bois Biss-Beau inc. (Groupe Beaudry)	I	-	139	240	379
Coopérative funéraire du Bas-Saint-Laurent	I	-	-	200	200
DuponTrolley Industries inc.	I	-	-	280	280
Fivetracks inc.	I	-	120	160	280
Groupe Documens inc.	IT	-	667	-	667
IndustryHub inc.	IT	-	400	-	400
IPS Thérapeutique inc.	H	-	-	80	80
Les Logiciels Dynagram inc.	IT	-	368	-	368
Les Luzernes Belcan du Lac-Saint-Jean inc.	I	160	-	120	280
Les Plastiques TPI inc.	I	-	-	400	400
MayaTech inc.	I	240	-	60	300
Nature 3M inc.	I	100	-	60	160
Technologies 20-20 inc.	IT	-	-	1,000	1,000
Usital Canada inc.	I	-	120	-	120
Viamode Photonics inc.	TC	-	1,067	-	1,067
Total – at cost		500	5,103	2,600	8,203
Unrealized appreciation (depreciation)					-
Funds committed but not disbursed					6,164
Fair value					14,367

Industry segment legend

I: Industrial
H: Health and biotechnology
TC: Telecommunications
IT: Information technology

Agreements related to unsecured investments impacting on the Quebec economy may include clauses providing for options as to conversion and redemption. These investments were all carried out during the six-month period ended June 30, 2002.

The debentures and advances bear interest at a weighted average rate of 13.42% and have an average residual term of 4.7 years.

Capital régional et coopératif Desjardins

Schedule of Unsecured Investments Impacting on the Quebec Economy ...*continued*

As at June 30, 2002

(in thousands of dollars)

Allocation of investments by industry segment:

Industry segment	Unsecured investments \$	Funds committed but not disbursed \$	Total \$
Industrial	2,899	792	3,691
Health and biotechnology	1,802	2,132	3,934
Telecommunications	1,067	1,000	2,067
Information technology	2,435	2,240	4,675
Total at cost	8,203	6,164	14,367
Unrealized appreciation (depreciation)	-	-	-
Fair value	8,203	6,164	14,367

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

1 Governing statutes, mission, administration and investments

Governing statutes and mission

Capital régional et coopératif Desjardins (the “company”) is constituted by an Act of the Quebec National Assembly (S.Q. 2001, c. 36) and is deemed to have been incorporated by the filing of statutes on July 1, 2001. The company started its activities on November 5, 2001 and is a legal person with share capital whose mission is to:

- raise venture capital for the benefit of Quebec resource regions (Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie – Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay – Lac-Saint-Jean) and the cooperative sector;
- promote economic development in the resource regions through investments in eligible entities operating in those regions;
- support the cooperative movement throughout Quebec by investing in eligible cooperatives;
- support eligible entities in their start-up phase and in their development; and
- stimulate the Quebec economy through investments in all parts of the territory of Quebec.

Administration

The affairs of the company are administered by a Board of Directors composed of 13 members, as follows:

- 8 persons appointed by the President of the Mouvement des caisses Desjardins;
- 2 persons elected by the General Meeting of shareholders of the company;
- 2 persons appointed by the above-mentioned 10 members selected from a group of persons that they deem to be representative of eligible entities as described in the Act; and
- the President and General Manager of the company.

Investments

The company may invest in eligible entities, with or without a guarantee or security. Eligible entities include eligible cooperatives and partnerships or a legal person actively operating an enterprise, the majority of whose employees are residents in Quebec and with less than \$50,000,000 of assets and net equity of not more than \$20,000,000.

The company may invest up to 5% of its assets (as established on the basis of the last accountants’ valuation) in the same eligible enterprise or cooperative and the investment is generally planned for a period of five to eight years. This percentage may be increased to 10% to allow the company to acquire titles of an entity operating in Quebec but which is not an eligible entity. In such case, the company may, directly or indirectly, acquire or hold shares representing up to a maximum of 30% of the voting rights, which can be exercised in all circumstances.

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

1 **Governing statutes, mission, administration and investments** *(continued)*

During each fiscal year, from the fiscal year beginning on January 1, 2006, the portion of the company's investments in eligible entities which does not entail any security or hypothec must represent on average at least 60% of the average net assets of the company for the preceding year. Furthermore, a portion representing at least 35% of that percentage must be invested in entities situated in resource regions of Quebec or in eligible cooperatives.

2 **Accounting change**

During the year ended December 31, 2001, an amount of \$1,582,000 representing the cost of software development was recorded as an expense and an equivalent portion of the deferred grants was recorded against this expense, resulting in a nil effect on the net earnings. During the period ended June 30, 2002, the company changed the accounting treatment of these items retroactively with restatement of the comparative figures. The restatement consisted in capitalizing the expense mentioned above and increasing the deferred non-refundable grants for the same amount. These changes did not affect any of the company's net assets, net earnings or cash flows for the year ended December 31, 2001 and for the period ended June 30, 2002.

3 **Significant accounting policies**

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they are known.

Unsecured investments impacting on the Quebec economy

Unlisted shares and debentures and advances

Unlisted shares and debentures and advances are valued at their fair value, determined in accordance with appropriate methods of valuation, including primarily comparison to arm's-length transactions or takeover bids, and the capitalization of representative earnings before interest, taxes, amortization and capitalization of or the discounted cash flows.

Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

Capital régional et coopératif Desjardins

Notes to Financial Statements

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(tabular amounts are in thousands of dollars, unless otherwise specified)

3 Significant accounting policies (continued)

Funds committed but not disbursed

Funds committed but not disbursed represent investments that have been agreed upon and where funds have been committed but not disbursed at the end of the period.

Other investments

Other investments consist of term deposits recorded at cost and bonds recorded at their unamortized cost net of the provision for losses, if necessary. The fair value is calculated according to the market value, which is the stock quotation closing price at the date of the balance sheet.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand. In accordance with sector practice, short-term investments with original terms to maturity of three months or less are not included in cash and cash equivalents but in other investments.

Software

Software is recorded at cost and amortized on a straight-line basis over a period of three to five years.

Income taxes

The company uses the liability method in accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. The tax rate in effect when these differences are expected to reverse is used to calculate future income taxes at the balance sheet date. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

Revenue recognition

Gains and losses on disposal of investments

Gains and losses on disposal of investments are recorded at the date of sale and represent the difference between the sale proceeds and the cost, without taking into consideration the unrealized appreciation (depreciation) recorded in previous years, which is reversed and taken into account in unrealized appreciation (depreciation) for the year.

Membership dues

Membership dues are recorded at the time of a shareholder's initial subscription and on the closure of that shareholder's account.

Capital régional et coopératif Desjardins

Notes to Financial Statements

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(tabular amounts are in thousands of dollars, unless otherwise specified)

3 Significant accounting policies (continued)

Premiums and discounts

Premiums and discounts on determined maturity portfolio investments are amortized using the internal rate of return method up to the maturity date of these investments.

Non-refundable grants

The non-refundable grants received from the Ministère de l'Industrie et du Commerce du Québec and the Mouvement des caisses Desjardins are allocated to net earnings when the related expenses are committed.

4 Other investments

	As at June 30, 2002 \$	As at December 31, 2001 \$
Bonds	102,910	-
Term deposits	112,500	70,545
	<hr/>	<hr/>
	215,410	70,545
Less: Funds committed but not disbursed	6,164	-
	<hr/>	<hr/>
	209,246	70,545
	<hr/>	<hr/>

The bonds in the nominal value of \$100,000,000 bear interest at the weighted average rate of 5.71% with maturities varying between February 2007 and June 2012. The term deposits bear interest at the weighted average rate of 2.48% and mature in July 2002. The fair value of these investments is comparable to their carrying value.

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

5 Accounts receivable

	As at June 30, 2002 \$	As at December 31, 2001 \$
Subscriptions and membership dues receivable	1,039	10,272
Non-refundable grants receivable		
Mouvement des caisses Desjardins	-	5,000
Ministère de l'Industrie et du Commerce du Québec	-	5,000
Interest receivable on other investments	972	71
Sales taxes receivable	269	141
Other accounts receivable	105	-
	<u>2,385</u>	<u>20,484</u>

6 Non-refundable grants

To accelerate the start-up of the company and the development of its activities in various regions of Quebec, the Ministère de l'Industrie et du Commerce du Québec and the Mouvement des caisses Desjardins granted the company, in equal shares, non-refundable grants totalling \$10,000,000. These grants will allow the company to pay its organization and start-up costs and set up a sectoral know-how allowing the support of the companies and cooperatives in their start-up phase and with their development. For the six-month period ended June 30, 2002, \$1,283,000 of these grants have been used. The balance of \$6,725,000 (December 31, 2001 – \$8,008,000) has been deferred and presented in liabilities on the balance sheet.

7 Accounts payable and accrued liabilities

	As at June 30, 2002 \$	As at December 31, 2001 \$
Entity members of the Mouvement des caisses Desjardins		
Bonds payable	102,910	-
Management fees	1,489	-
Software	579	1,701
Start-up fees	-	2,141
Fiduciary fees	319	324
Other	1,267	984
	<u>106,564</u>	<u>5,150</u>
Other	<u>173</u>	<u>360</u>
	<u>106,737</u>	<u>5,510</u>

Capital régional et coopératif Desjardins

Notes to Financial Statements

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(tabular amounts are in thousands of dollars, unless otherwise specified)

8 Share capital

Authorized

The company is authorized to issue common shares and fractions of common shares, participating, voting, with the right to elect two representatives to the Board of Directors, without par value, so that its capital increases by a maximum of \$150,000,000 annually to a maximum of \$1,500,000,000, redeemable subject to certain conditions provided under the Act.

Issued and fully paid

	As at June 30, 2002 \$	As at December 31, 2001 \$
11,502,535 Common shares (December 31, 2001 – 7,905,450)	115,025	79,054

During the period, the company issued 3,597,085 common shares (2001 – 7,905,450) for a cash consideration of \$35,970,850 (December 31, 2001 – \$79,054,490).

Redemption criteria

The company is bound to redeem a whole common share or a fraction of a common share in the following circumstances:

- at the request of the person who acquired it from the company at least seven years prior to redemption;
- at the request of a person to whom it has been devolved by succession;
- at the request of the person who acquired it from the company if the person applies to the company therefor in writing within 30 days after subscribing it; or
- at the request of a person who acquired it from the company if that person is declared to have a severe and permanent mental or physical disability which makes this person incapable of pursuing his or her work.

However, the company may purchase a common share or a fractional common share by agreement in the cases and to the extent permitted by a policy adopted by the Board of Directors and approved by the Quebec Minister of Finance.

The redemption price of the common shares and fractions of shares will be set twice a year, at dates that are six months apart, by the company's Board of Directors on the basis of the company's value as determined in the audited financial statements.

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

9 Income taxes

For purposes of calculating taxable income in Quebec, the company is authorized to deduct, for a given taxation year, an amount that is not more than its taxable income for the year. Accordingly, the company's income will be exempt from the Quebec income tax. Moreover, Federal income taxes include the large corporations tax.

a) The income tax expense is detailed as follows:

	For the six-month period ended June 30, 2002 \$
Current income taxes	1,952
Future income taxes	<u>(1,764)</u>
	<u>188</u>

b) The actual income tax rate differs from the combined basic income tax rate and is explained as follows:

	For the six-month period ended June 30, 2002 \$
Income taxes by applying the combined basic income tax rate of 29.12%	57
Large corporations tax*	<u>131</u>
	<u>188</u>

* The large corporations tax is based on capital employed in Canada by the company.

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

9 Income taxes (continued)

- c) Future income taxes relate to the following items:

	\$
Future income tax assets	
Deferred non-refundable grants	1,958
Other items	<u>25</u>
	1,983
Future income tax liabilities	
Software	<u>219</u>
Future income tax assets, net	<u><u>1,764</u></u>

- d) The purchase of shares of the company provides the right to the investor to reduce its taxes in Quebec only by an amount equal to 50% of the amount invested, up to the sum of \$2,500.

10 Cash flows

- a) The change in non-cash operating working capital balances consists of the following:

	\$
Decrease in accounts receivable	18,099
Decrease in accounts payable and accrued liabilities (note 10 b))	(1,683)
Increase in income taxes	<u>1,815</u>
	<u><u>18,231</u></u>

- b) During the period, bonds amounting to \$102,910,400 were acquired, for which no cash was disbursed.

Capital régional et coopératif Desjardins

Notes to Financial Statements

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(tabular amounts are in thousands of dollars, unless otherwise specified)

11 Related party transactions

The company is a member of the Mouvement des caisses Desjardins. In the normal course of its operations, the company carried out transactions with other members of the Mouvement des caisses Desjardins. All of these transactions are measured at the exchange amount:

	For the six-month period ended June 30, 2002 \$
Earnings	
Caisse centrale Desjardins	
Interest on term deposits	977
Investissement Desjardins Inc.	
Management fees	1,489
Fédération des caisses Desjardins du Québec	
Operating expenses	145
Mouvement des caisses Desjardins	
Non-refundable grant	642
Desjardins Trust Inc.	
Membership dues	381
Administration expenses	316

Capital régional et coopératif Desjardins

Notes to Financial Statements

June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

11 Related party transactions (continued)

	As at June 30, 2002 \$	As at December 31, 2001 \$ (restated)
Balance sheet		
Caisse centrale Desjardins		
Term deposits	112,500	70,545
Accounts receivable	47	71
Cash	615	5
Valeurs mobilières Desjardins		
Bonds	102,910	-
Accounts receivable	925	-
Accounts payable and accrued liabilities	103,825	-
Fédération des caisses Desjardins du Québec		
Accounts receivable	-	5,000
Software	119	-
Accounts payable and accrued liabilities	264	2,253
Mouvement des caisses Desjardins		
Deferred non-refundable grant	3,362	4,004
Investissement Desjardins Inc.		
Accounts receivable	6	-
Accounts payable and accrued liabilities	1,489	1,264
Desjardins Trust Inc.		
Accounts receivable	1,039	10,272
Software	460	1,532
Accounts payable and accrued liabilities	975	1,633
Fonds d'investissement Desjardins régionaux		
Accounts receivable	83	-
Accounts payable and accrued liabilities	1	-

12 Commitments

The company has entrusted the management of its operations, including management of its portfolio, to Investissement Desjardins Inc., a member of the Mouvement des caisses Desjardins, in accordance with strategies and objectives approved by the Board of Directors. The management contract signed by Investissement Desjardins Inc. and the company is in effect for an initial ten-year period, unless the parties agree to terminate it by mutual agreement. Thereafter, it shall be automatically renewed for a five-year period unless either party decides to terminate the contract by giving notice of at least 18 months.

Under this contract, the company is required to pay an annual management fee equal to 3% of its annual average net asset value reduced by any amount payable for the acquisition of investments. This percentage is reduced to 2.5% from the fiscal year following that in which the company's net asset value reaches \$750,000,000.

Capital régional et coopératif Desjardins

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June 30, 2002

(tabular amounts are in thousands of dollars, unless otherwise specified)

12 Commitments *(continued)*

The company has appointed Desjardins Trust Inc., a Mouvement des caisses Desjardins corporation, to act as its registrar and transfer agent with respect to shareholder transactions. The term of this contract is three years and two months effective November 1, 2001 and is renewable annually under the same terms and conditions unless either party gives written notice to the contrary 180 days before the end of a year.

13 Financial instruments

The fair value of accounts receivable, cash and cash equivalents, and accounts payable and accrued liabilities approximates their carrying value given their current maturities.

Credit risk relates to the possibility that the counterparty to the transaction does not meet its obligations. The company reduces this risk by dealing solely with Caisse centrale Desjardins and Valeurs mobilières Desjardins, entities that are members of the Mouvement des caisses Desjardins.