

Capital régional et coopératif Desjardins

Financial Statements
December 31, 2012



February 13, 2013

Independent Auditor's Report

To the Shareholders of Capital régional et coopératif Desjardins

We have audited the accompanying financial statements of Capital régional et coopératif Desjardins, which comprise the balance sheets as at December 31, 2012 and December 31, 2011 and the statements of earnings, shareholder's equity and the cash flows for the years then ended, and the related notes, which comprise 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 Canadian generally accepted accounting principles, 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.

Auditor's 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 audits 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 auditor's 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 auditor considers 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 is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4
T: +1 514 205 5000, F: +1 514 876 1502, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins as at December 31, 2012 and December 31, 2011 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP¹

Montréal, Canada

¹ CPA auditor, CA, public accountancy permit No. A119427

Capital régional et coopératif Desjardins

Balance sheets

As at December 31, 2012 and 2011

(in thousands of dollars, except number of shares and net value per common share)

	2012 \$	2011 \$
Assets		
Investments impacting the Québec economy (note 4)	659,045	541,909
Other investments (note 5)	670,572	667,873
Cash	7,357	14,905
Accounts receivable (note 6)	29,946	16,820
Income taxes (note 14)	18,350	14,548
	<hr/> 1,385,270	<hr/> 1,256,055
Liabilities		
Accounts payable (note 8)	2,932	6,173
Notes payable (note 9)	10,921	14,335
Income taxes (note 14)	14,971	15,120
	<hr/> 28,824	<hr/> 35,628
Net assets	<hr/> 1,356,446	<hr/> 1,220,427
Number of outstanding common shares	118,243,301	110,775,643
Net value per common share	11.47	11.02

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

Approved by the Board of Directors

(signed) André Lachapelle, Director

(signed) Jacques Plante, Director

Capital régional et coopératif Desjardins

Statements of Earnings

For the years ended December 31, 2012 and 2011

(in thousands of dollars, except number of shares and net earnings per common share)

	2012	2011
	\$	\$
Revenue		
Interest	43,474	41,142
Dividends	6,275	3,161
Negotiation fees	3,143	1,904
Administrative charges	599	687
	<u>53,491</u>	<u>46,894</u>
Expenses		
Management fee	27,529	27,283
Other operating expenses (note 13)	3,376	5,137
Shareholder services (note 13)	1,611	1,774
	<u>32,516</u>	<u>34,194</u>
Net investment income	<u>20,975</u>	<u>12,700</u>
Gains (losses) on investments		
Realized	54,748	21,614
Unrealized	(12,372)	96,143
	<u>42,376</u>	<u>117,757</u>
Income taxes (note 14)	<u>9,916</u>	<u>7,869</u>
Net earnings for the year	<u>53,435</u>	<u>122,588</u>
Weighted average number of common shares	115,382,984	107,059,998
Net earnings per common share	0.46	1.15

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

Capital régional et coopératif Desjardins

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
	\$	\$
Cash flows from		
Operating activities		
Net earnings for the year	53,435	122,588
Adjustments for		
Realized gains on investments	(54,748)	(21,614)
Unrealized losses (gains) on investments	12,372	(96,143)
Amortization of software	-	313
Amortization of premiums and discounts on investments	3,898	3,059
Future income taxes	191	3,554
Capitalized interest and other non-cash items	(2,498)	(3,179)
	<u>12,650</u>	<u>8,578</u>
Changes in non-cash operating working capital balances (note 15)	(7,732)	10,796
	<u>4,918</u>	<u>19,374</u>
Investing activities		
Acquisitions of investments impacting the Québec economy	(228,044)	(138,404)
Acquisitions of other investments	(494,939)	(725,891)
Proceeds on disposal of investments impacting the Québec economy	127,434	122,460
Proceeds on disposal of other investments	486,509	588,851
	<u>(109,040)</u>	<u>(152,984)</u>
Financing activities		
Issuance of common shares	149,994	153,955
Redemption of common shares	(67,410)	(75,962)
	<u>82,584</u>	<u>77,993</u>
Net changes in cash and cash equivalents during the year	(21,538)	(55,617)
Cash and cash equivalents – Beginning of the year	<u>32,491</u>	<u>88,108</u>
Cash and cash equivalents – End of the year (note 12)	<u>10,953</u>	<u>32,491</u>
Supplementary information		
Income taxes paid (received)	13,916	(3,826)

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

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

1 Governing statutes, administration and investments

Governing statutes

Capital régional et coopératif Desjardins (the “Company”) is constituted by an Act of the Québec National Assembly (R.S.Q. c. C-6.1) (the “Act”) and is deemed to have been incorporated by the filing of statutes on July 1, 2001. The Company began its activities on November 5, 2001 and is a legal person with share capital.

Administration

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

- Eight people appointed by the President of the Desjardins Group;
- Two people elected by the General Meeting of shareholders of the Company;
- Two people appointed by the above-mentioned ten members, selected from a group of people whom they deem to be representative of eligible entities as described in the Act;
- The General Manager of the Company.

Investments

The Company may acquire minority interests, mainly 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 resident in Québec and with less than \$100 million of assets or net equity of not more than \$50 million.

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 securities in an entity operating in Québec 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.

Pursuant to the Act, other investments may qualify, such as investments in certain investment funds, provided the required specific conditions set out in the Act have been met.

At the end of each fiscal year, the portion of the Company’s investments in eligible entities, as well as other eligible investments which do not entail any security or hypothec and are made as first purchaser, must represent on average at least 60% of the average adjusted 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 Québec or in eligible cooperatives. If these criteria were not met, the Company could be subject to penalties. As at December 31, 2012 and December 31, 2011 no amount was owing by the Company under these rules.

In its eligibility calculations, the Company also takes into account the investments it has made other than as first purchaser for the acquisition of securities issued by an eligible entity. For investments made prior to November 10, 2007, these investments should not represent more than one third of the total investments made by the Company as first purchaser in this entity. For investments made on or after November 10, 2007, this restriction is lifted, but the Company may not make investments other than as first purchaser totalling more than 20% of its net assets as at the preceding year-end for those investments to be eligible.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

2 Significant accounting policies

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and contingent liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting year. The principal estimates are related to the determination of the fair value of investments impacting the Québec economy. Actual results could differ from those estimates. Those estimates are reviewed periodically and adjustments as they become necessary, are reported in earnings in the year in which they are known.

Comprehensive income

The statement of comprehensive income is not provided since net earnings and comprehensive income are the same.

Investments impacting the Québec economy

Listed shares

The investments in listed shares are recorded at their fair value. Fair value is established using the bid-side level at market closing on the balance sheet date when an active market is available. The value of the shares with trading or transfer restrictions is adjusted by a discount. The Company determines the amount of this discount based on the nature and duration of the restriction, the relative volatility of the share's performance, as well as the importance of the interest held in the overall float of outstanding shares and the volume of trades. Otherwise, the fair value may be established using unlisted share valuation techniques.

Unlisted shares, debentures and advances

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

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

Sureties

When it is likely that an amount will be disbursed by the Company in relation to a pledged surety, the amount to be recognized in liabilities is estimated using an asset-based approach and a liquidation value method.

Other investments

Other investments consist of temporary investments, bonds, preferred shares and foreign exchange contracts. The foreign exchange contracts are measured using the difference between the contract's rate and the rate of an identical contract (same maturity and notional amount) that would have been agreed to at the balance sheet date. For all other investments, fair value is calculated according to market value, which is the bid-side level at market closing on the balance sheet date.

Obligations related to securities sold short

Securities sold short as part of trading activities, which represent the Company's obligation to deliver securities sold which were not owned at the time of sale, are recorded as liabilities and are carried at fair value measured using the sell-side level at market closing on the balance sheet date. Realized and unrealized gains and losses thereon are recorded in revenue in Interest. As at December 31, 2012 and December 31, 2011 the Company had no securities sold short.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

Securities purchased under resale agreements and securities sold under repurchase agreements

The Company enters into short-term purchases and sales of securities with simultaneous agreements to sell and buy back those securities at a specified price and on a specified date. Those resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions, and are recorded on the balance sheet at the reselling or repurchase price specified under the agreement. The difference between the purchase price and specified reselling price and the difference between the selling price and the specified repurchase price are recorded using the accrual method in Interest. As at December 31, 2012 and December 30, 2011 the Company had no securities purchased under resale agreements or securities sold under repurchase agreements.

Cash, cash and cash equivalents, accounts receivable and accounts payable

The cash consist of bank balances. Cash and cash equivalents consist of cash and money market instruments with original terms to maturity of less than ninety days.

The fair value of accounts receivable (except for amounts receivable on disposal of investments), cash and accounts payable approximates their carrying value given their current maturities.

The fair value of amounts receivable on disposal of investments impacting the Québec economy is determined in the same way as the fair value of investments impacting the Québec economy.

Software

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

In the statement of earnings, realized or unrealized gains or losses on investments are presented under Gains (losses) on investments. For the other assets and liabilities denominated in foreign currencies, the changes related to foreign exchange rates are presented under Other operating expenses.

Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date.

Notes payable

Notes payable are recorded at their fair value, which represents the amount that the Company would have to pay in accordance with the underlying contractual agreements to these notes at the balance sheet date.

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.

The Company is subject to federal and provincial income taxes. It is also subject to the tax rules applicable to mutual fund corporations. Under such rules, the Company may obtain a refund of its tax paid on capital gains through the redemption of its shares.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

Revenue recognition

Interest and dividends

Interest is recorded on an accrual basis when collection is considered probable. Dividends are recorded as at the holder-of-record date and when they are declared by the issuing companies.

Administrative charges

Administrative charges are recorded at the time of a shareholder's initial subscription and on the closure of that shareholder's last account.

Negotiation fees

Negotiation fees are recorded when the service is performed and when collection is considered probable.

Gains and losses on 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 unamortized cost, without taking into consideration the unrealized gains and losses recorded in previous years, which are reversed and taken into account in change in unrealized gains and losses for the year.

Gains and losses on amounts receivable on disposal of investments impacting the Québec economy are recorded at the time their fair value is determined.

Gains and losses on notes payable

Gains and losses on notes payable are recorded at the date of payment and represent the difference between the amount the Company paid to settle a note and its initial value, without taking into consideration the unrealized gains and losses recorded in previous years, which are reversed and taken into account in unrealized gains and losses in the current year.

Premiums and discounts

Premiums and discounts on fixed-term maturity of other investments are amortized using the internal rate of return method up to the maturity date of these investments. Amortization of premiums and discounts are recorded in Interest.

3 Future changes in accounting policies

As an investment company, the Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting effective prior to the changeover for the periods beginning on January 1, 2014. At that time, the Company will start to apply IFRS as set out in Part I of the CICA Handbook – IFRS as its primary basis of accounting.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

4 Investments impacting the Québec economy

The *Schedule of cost of investments impacting the Québec economy* is available at the Company's head office, on its Web site at capitalregional.com and on SEDAR at www.sedar.com. The Schedule does not form an integral part of the financial statements.

	2012		
	Cost	Unrealized	Fair value
	\$	gain (loss)	\$
		\$	
Unsecured			
Common shares and fund units	316,091	34,355	350,446
Preferred shares	78,465	2,142	80,607
Loans and advances	225,225	(2,708)	222,517
Secured			
Loans and advances	5,633	(158)	5,475
	625,414	33,631	659,045
	2011		
	Cost	Unrealized	Fair value
	\$	gain (loss)	\$
		\$	
Unsecured			
Common shares and fund units	216,820	(3,649)	213,171
Preferred shares	66,845	61,477	128,322
Loans and advances	208,438	(14,640)	193,798
Secured			
Loans and advances	6,881	(263)	6,618
	498,984	42,925	541,909

Investments impacting the Québec economy included investments valued in foreign currencies for a fair value of \$93.9 million (December 31, 2011 – \$150.9 million).

Agreements related to investments impacting the Québec economy may include clauses providing conversion and redemption options.

Loans and advances bear interest at a weighted average rate of 11.3% (December 31, 2011 – 11.6%) and have an average residual maturity of 4.2 years (December 31, 2011 – 4.3 years). For substantially all the interest-bearing loans and advances, the interest rate is fixed.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

a) Allocation of investments and funds committed by asset class consist of the following:

Asset class	2012				
	Investments	Unrealized	Fair	Funds	Total
	at cost	gain (loss)	value	committed	commitment
	\$	\$	\$	\$ ¹	\$
Development Capital	155,817	2,108	157,925	3,596	161,521
Company buyouts and Major Investments	285,690	52,684	338,374	12,500	350,874
Technological Innovations	25,196	(7,521)	17,675	-	17,675
Venture Capital - Health Funds	13,456	(11,056)	2,400	-	2,400
	145,255	(2,584)	142,671	126,254	268,925
Total	625,414	33,631	659,045	142,350	801,395

Asset class	2011				
	Investments	Unrealized	Fair	Funds	Total
	at cost	gain (loss)	value	committed	commitment
	\$	\$	\$	\$ ¹	\$
Development Capital	154,340	(5,954)	148,386	5,250	153,636
Company buyouts and Major Investments	169,776	18,907	188,683	24,096	212,779
Technological Innovations	38,233	(14,238)	23,995	-	23,995
Venture Capital - Health Funds	34,482	50,593	85,075	-	85,075
	102,153	(6,383)	95,770	122,476	218,246
Total	498,984	42,925	541,909	151,822	693,731

¹ Funds committed but not disbursed are not included in the Company's assets.

b) Funds committed but not disbursed represent investments that have been agreed upon and which have been committed but not disbursed at the balance sheet date. Future disbursements are subject to certain conditions. Assuming that the conditions are met, the estimated instalments over the coming years ended December 31 will be as follows:

2013	2014	2015	2016	2017 and after	Total
\$60,009	\$21,447	\$18,958	\$15,874	\$26,062	\$142,350

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

5 Other investments

The unaudited *Statement of other investments* is available at the Company's head office, on its Web site at capitalregional.com and on SEDAR at www.sedar.com. The Statement does not form an integral part of the financial statements.

	2012		
	Cost	Unrealized	Fair value
	\$	gain	\$
	\$	\$	\$
Bonds			
Federal or guaranteed	178,728	5,758	184,486
Provincial, municipal or guaranteed	228,099	4,062	232,161
Financial institutions	136,665	5,889	142,554
Companies	30,983	2,415	33,398
	574,475	18,124	592,599
Money market instruments ¹	13,508	-	13,508
Foreign exchange contracts ²	-	(247)	(247)
Preferred shares	63,500	1,212	64,712
Total	651,483	19,089	670,572

Allocation of bonds by maturity date

	2012			
Maturity	Less than	1 to	More than	Total
	1 year	5 years	5 years	\$
	\$	\$	\$	\$
Unamortized cost	-	278,566	295,909	574,475
Par value	-	272,869	282,370	555,239
Fair value	-	283,799	308,800	592,599
Average nominal rate ³	-	3.22%	3.96%	3.59%
Average effective rate	-	2.35%	3.20%	2.79%

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

	2011		
	Cost	Unrealized gain	Fair value
	\$	\$	\$
Bonds			
Federal or guaranteed	179,559	8,538	188,097
Provincial, municipal or guaranteed	195,181	8,503	203,684
Financial institutions	133,952	3,270	137,222
Companies	31,294	1,832	33,126
	539,986	22,143	562,129
Money market instruments ¹	63,355	-	63,355
Foreign exchange contracts ²	-	296	296
Preferred shares	41,648	445	42,093
	644,989	22,884	667,873
Total	644,989	22,884	667,873

Allocation of bonds by maturity date

	2011			
Maturity	Less than 1 year	1 to 5 years	More than 5 years	Total
	\$	\$	\$	\$
Unamortized cost	-	215,579	324,407	539,986
Par value	-	212,372	308,123	520,495
Fair value	-	218,994	343,135	562,129
Average nominal rate ³	-	2.94%	4.41%	3.81%
Average effective rate	-	2.25%	3.58%	3.05%

¹Money market instruments consist of term deposits, Treasury bills and strip bonds with an original maturity of less than a year. As at December 31, 2012, all money market instruments have an original maturity of two to nine months while as at December 31, 2011, they all had an original maturity of zero to eleven months.

²Foreign exchange contracts to sell USD 114.0 M and AUD 1.4 M (australian dollar) have three-month maturities. (USD 153.6 M and AUD 1.1 M as at December 31, 2011.)

³Substantially all bonds are fixed-interest rate issues.

All portfolio securities of other investments are denominated in Canadian dollars except foreign exchange contracts.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

6 Accounts receivable

	2012	2011
	\$	\$
Interest and dividends receivable on investments	4,665	4,921
Sales taxes receivable	761	737
Amounts receivable on disposal of investments impacting the Québec economy	23,436	10,565
Other accounts receivable	1,084	597
	<hr/>	<hr/>
	29,946	16,820
	<hr/>	<hr/>

Accounts receivable include amounts receivable on disposal of investments valued in foreign currencies of \$22.8 million (\$6.4 million as at December 31, 2011).

7 Line of credit

The Company has had an authorized line of credit of \$10 million with Caisse centrale Desjardins. This bank credit bears interest at the operating credit rate of Caisse centrale Desjardins plus 0.5%. This line of credit is guaranteed by a portion of the money market instruments and bonds recorded in Other investments and is renewable on an annual basis. As at December 31, 2012 and December 31, 2011, no drawings had been made on the line of credit.

8 Accounts payable

	2012	2011
	\$	\$
Suppliers and accrued liabilities	1,859	4,669
Other accounts payable	1,073	1,504
	<hr/>	<hr/>
	2,932	6,173
	<hr/>	<hr/>

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

9 Notes payable

On November 30, 2010, the Company acquired from Desjardins Venture Capital L.P., a subsidiary of Fédération des Caisses Desjardins du Québec, investments with a fair value of \$17.6 million as consideration for notes of equal initial value. Each note payable is related to one of the acquired investments and contains a provision under which the amount payable shall be adjusted based on the amounts received by the Company on the sale of the related investment. If the amount received by the Company at the time of sale is less than the initial cost of the investment, the amount of the note will be adjusted to the amount received. However, if the amount received by the Company at the time of sale is more than the initial cost of the investment, the amount of the note will be increased by 70% of the realized gain. Management fees paid by the Company in respect of investments between their dates of acquisition and their dates of sale are deducted from the amount of the related notes.

As at December 31, 2012, notes payable with a fair value of \$8.5 million were related to investments valued in foreign currencies (\$9.6 million as at December 31, 2011).

Notes payable have an initial maturity of three years. Notes not settled by that time must be renegotiated by Desjardins Venture Capital L.P. and the Company.

10 Shareholders' equity

Share capital authorized

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

As of the capitalization period following the one at the end of which the Company first reaches capitalization of at least \$1.25 billion, the Company may collect, per capitalization period, the lesser of \$150 million and the amount corresponding to the reduction in paid-up capital attributable to all the shares and fractions of shares redeemed or purchased by agreement by the Company during the preceding capitalization period.

Each capitalization period, which lasts twelve months, begins on March 1 of each year. The maximum the Company can raise in the capitalization period ending on February 28, 2013 is \$150 million. As at December 31, 2012 and December 31, 2011, the Company is in compliance with this limit.

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 therefore in writing within 30 days of subscribing it;
- 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.

Moreover, 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 Québec Minister of Finance.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

The redemption price of the common shares is 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.

Tax credit

The purchase of shares of the Company entitles the investor to receive a non-refundable tax credit, for Québec tax purposes only, for an amount equal to:

For purchases prior to March 24, 2006: 50% tax credit, \$1,250 maximum.

For purchases from March 24, 2006 to November 9, 2007: 35% tax credit, \$875 maximum.

For purchases subsequent to November 9, 2007: 50% tax credit, \$2,500 maximum.

Investors who withdraw some or all of their shares as part of a redemption after a seven-year holding period will not be able to claim the tax credit for any purchase for which the tax credit could be applied in the same or subsequent taxation years.

11 Capital disclosures

The Company's objective with respect to capital management is to ensure the availability of sufficient cash resources to fund investments in line with its mission and meet shareholders' demands for share redemptions. The Company's capital consists of shareholders' equity.

The Company is not subject to any external capital requirements other than those governing the issuance and redemption of its shares, as indicated in note 10.

The Company's policy is to reinvest the annual revenue generated by its operations and not to pay dividends to its shareholders, with a view to increasing the capital available for investment and enhancing share valuations.

12 Cash and cash equivalents

	2012	2011
	\$	\$
Cash	7,357	14,905
Money market instruments	3,596	17,586
	<u>10,953</u>	<u>32,491</u>

13 Expenses

	2012	2011
	\$	\$
Other operating expenses		
Audit fees	269	229
Directors' compensation	368	321
Other professional fees	704	3,547
Financials expenses (revenues)	-	(25)
Custodial fees and trustees' fees	112	91
Computer developments	1,291	380
Other expenses	632	281
Amortization of software	-	313
	<u>3,376</u>	<u>5,137</u>

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

Shareholder services

Trustee fees	1,336	1,500
Reporting to shareholders	134	138
Other expenses	141	136
	<u>1,611</u>	<u>1,774</u>

14 Income taxes

a) Income tax expense is detailed as follows:

	2012	2011
	\$	\$
Current income taxes	9,725	4,315
Future income taxes	191	3,554
	<u>9,916</u>	<u>7,869</u>

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

	2012	2011
	\$	\$
Income taxes by applying the combined basic tax rate of 39.90%	25,277	52,052
Permanent differences between earnings before income taxes and taxable income and other items		
Realized and unrealized gains on investments	(8,566)	(29,356)
Untaxable dividends	(2,503)	(1,821)
Refundable tax	(4,632)	(14,548)
Others	340	1,542
	<u>9,916</u>	<u>7,869</u>

c) Future income taxes relate to the following items:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	\$	\$	\$	\$
Refundable realized capital gains tax on hand	11,169	-	5,335	-
Income taxes recoverable (payable)	-	(8,036)	-	(6,344)
	<u>11,169</u>	<u>(8,036)</u>	<u>5,335</u>	<u>(6,344)</u>
Future refundable unrealized capital gains tax on	7,181	-	9,213	-
Future income taxes – Investments	-	(6,935)	-	(8,776)
	<u>7,181</u>	<u>(6,935)</u>	<u>9,213</u>	<u>(8,776)</u>
	<u>18,350</u>	<u>(14,971)</u>	<u>14,548</u>	<u>(15,120)</u>

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

15 Cash flows

The changes in non-cash working capital items consist of the following:

	2012	2011
	\$	\$
Decrease (increase) in accounts receivable	(255)	888
Decrease (increase) in income taxes receivable	(3,802)	7,273
Increase (decrease) in income taxes payable	(340)	1,009
Increase (decrease) in accounts payable	(3,335)	1,626
	<hr/>	<hr/>
	(7,732)	10,796
	<hr/>	<hr/>

16 Related party transactions

The Company is related to Desjardins Venture Capital Inc. (“DVC”), its manager. DVC is a subsidiary of Fédération des caisses Desjardins du Québec and is part of Desjardins Group. The Company is therefore indirectly related to Desjardins Group.

- The Company has entrusted the management of its operations, including management of its portfolio, to DVC, in accordance with the strategies and objectives approved by the Board of Directors. The management contract signed by DVC and the Company was effective for an initial term of ten years, ending December 31, 2011. For the fiscal year ending December 31, 2012, the parties have agreed to renew the contract for one year on the same terms and conditions, except for the rate.

Under this contract, the Company is required to pay management fees of 2.25% (2.5% for the fiscal year ending December 31, 2011) of its average annual assets’ net value less any amounts payable related to investments impacting the Québec economy and other investments. An adjustment is made to the management fee charged to the Company to avoid double billing relative to the Company’s interest in some funds.

A new management contract with a five-year term came into effect on January 1, 2013. Certain governance-related expenses previously assumed by DVC as well as share issue expenses will now be assumed by the Company. As consideration, the rate charged for annual management fees will be reduced to 2.02% in 2013. This rate may be revised according to certain terms and conditions set out in the new contract.

- The Company has appointed Desjardins Trust Inc. to act as its registrar and transfer agent with respect to shareholder transactions. The agreement has a three-year term starting on January 1, 2008. This agreement was renewed under the same terms and conditions until June 30, 2013. However, given the review of the terms and conditions of the management agreement between the Company and its manager, the terms of the agreement with Desjardins Trust could, by the same token, be revised.
- The Company has centralized custody services for its assets with Desjardins Trust. The custody and administration agreement became effective on May 1, 2009. Its term is indefinite unless one or the other of the parties, on prior written notice of at least 90 days, decides to terminate it.
- The Company has appointed Fédération des caisses Desjardins du Québec to distribute its shares through the Desjardins caisse network. This agreement is effective for one year and will be automatically renewed each year at market conditions unless one of the parties gives written notice to the contrary three months before the expiry date of the agreement.

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

The Company entered into transactions with other Desjardins Group entities in the normal course of business. All of these transactions are measured at the exchange amount. The transactions and balances are detailed as follows:

	2012	2011
	\$	\$
Balance sheets		
Caisse centrale Desjardins		
Cash	6,855	14,074
Other investments	4,165	26,079
Interest and dividends receivable on investments	35	87
Capital Desjardins inc.		
Other investments	11,543	9,955
Interest and dividends receivable on investments	91	83
Desjardins Trust Inc.		
Cash	542	890
Accounts payable	478	483
Desjardins Venture Capital inc.		
Accounts payable	1,034	1,764
Desjardins Venture Capital L.P.		
Accounts payable	141	45
Notes payable	10,921	14,335
Fédération des caisses Desjardins du Québec		
Accounts payable	15	-
	2012	2011
	\$	\$
Statements of earnings		
Caisse centrale Desjardins		
Interest	416	591
Realized gains (losses) on investments	4,971	(56)
Unrealized gains (losses) on investments	(450)	(811)
Capital Desjardins inc.		
Interest	448	36
Realized gains (losses) on investments	-	173
Unrealized gains (losses) on investments	542	6
Desjardins Global Asset Management		
Realized gains (losses) on investments	-	(3,581)
Unrealized gains (losses) on investments	-	3,663
Desjardins Trust Inc.		
Shareholder services	1,336	1,500
Other operating expenses	112	120
Desjardins Venture Capital inc.		
Management fees	27,529	27,283
Desjardins Venture Capital L.P.		
Realized gains (losses) on investments	(223)	(691)
Unrealized gains (losses) on investments	1,262	1,980
Fédération des caisses Desjardins du Québec		
Other operating expenses	511	365

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

17 Financial instruments and associated risks

Financial instruments

The Company's financial instruments are recorded at their fair value. Fair value is used to determine the values at which these instruments could be traded in a current transaction between willing parties. When these financial instruments are not traded in public markets, their fair value is established based on a set of predetermined criteria, which minimizes the subjectivity of the valuation. The Company categorizes its financial instruments according to the three following hierarchical levels:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Valuation techniques based primarily on observable market data; and
- Level 3 – Valuation techniques not based primarily on observable market data.

The following table shows the breakdown of the fair-value valuation of the financial instruments among the three levels.

				2012
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments impacting the Québec economy	1,991	-	657,054	659,045
Other investments	476,862	193,710	-	670,572
Cash	7,357	-	-	7,357
Amounts receivable on disposal of investments impacting the Québec economy	-	-	23,436	23,436
				2011
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments impacting the Québec economy	5,572	-	536,337	541,909
Other investments	472,431	195,442	-	667,873
Cash	14,905	-	-	14,905
Amounts receivable on disposal of investments impacting the Québec economy	-	-	10,565	10,565

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

When fair-value valuations of interests in private companies are not entirely based on observable data, the estimates are qualified as Level 3. This takes into account that, beyond external variables such as interest rate levels, economic growth and income tax rates to name only a few, whose impacts are generally reflected in valuation, there are also internal variables which affect fair-value estimates. The valuation of interests is also dependent on information or factors that have a particular influence on a business (outlook, competition, human or financial resources, etc.).

While the goal of valuation is to rely as much as possible on observable data, the choice of relevant elements and their impact on establishing fair value is influenced by the judgment of the valuator. That being said, although another valuator looking at the same business might weigh certain specific factors differently, the impact on the overall portfolio will be marginal.

The following table presents the reconciliation between the beginning and ending balances of Level 3:

			2012
	Investments impacting the Québec economy	Other investments	Amounts receivable on disposal of investments impacting the Québec economy
	\$	\$	\$
Balance – December 31, 2011	536,337	-	10,565
Realized gains (losses) on investments	47,875	-	(824)
Unrealized gains (losses) on investments	(6,556)	-	-
Acquisition	230,526	-	18,298
Proceeds on disposal	(151,128)	-	(4,603)
Transfer to Level 1	-	-	-
Balance – December 31, 2012	<u>657,054</u>	-	<u>23,436</u>
Unrealized gains on investments held as at December 31, 2012	<u>30,536</u>	-	-

Capital régional et coopératif Desjardins

Notes to Financial Statements

As at December 31, 2012 and December 31, 2011

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

	2011		
	Investments impacting the Québec economy \$	Other investments \$	Amounts receivable on disposal of investments impacting the Québec economy \$
Balance – December 31, 2010	433,759	280	3,037
Realized gains (losses) on investments	18,524	(3,581)	(533)
Unrealized gains (losses) on investments	82,906	3,663	-
Acquisition	140,421	-	13,094
Proceeds on disposal	(127,032)	(362)	(5,033)
Transfer to Level 1	(12,241)	-	-
Balance – December 31, 2011	536,337	-	10,565
Unrealized gains on investments held as at December 31, 2011	82,870	-	-

Financial instruments and associated risks

The risks associated with financial instruments that affect the Company's financial position are discussed in detail in the audited sections "Market Risk", "Credit and Counterparty Risk" and "Liquidity Risk" of the Company's management discussion and analysis on pages 9 to 10.

18 Comparative amounts

Certain comparative figures for 2011 have been reclassified to conform to current year presentation.