Capital régional et coopératif Desjardins

Separate Financial Statements
June 30, 2016 and 2015
(in thousands of Canadian dollars)

August 18, 2016

Independent Auditor's Report

To the Shareholders of
Capital régional et coopératif Desjardins

We have audited the accompanying separate financial statements of Capital régional et coopératif Desjardins (the financial statements), which comprise the balance sheets as at June 30, 2016 and 2015 and the statements of comprehensive income, changes of net assets and cash flows for the six-month periods ended June 30, 2016 and 2015, 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 International Financial Reporting Standards, 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 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 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.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

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 Capital régional et coopératif Desjardins as at June 30, 2016 and 2015, its financial performance and its cash flows for the six-month periods ended June 30, 2016 and 2015 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A111799

Capital régional et coopératif Desjardins

Separate Balance Sheet

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

	Note	As at June 30, 2016 $	As at December 31, 2015 $
Assets			
Investments impacting the Québec economy	7	871,234	817,199
Other investments	8	744,412	793,604
Income taxes recoverable	18	14,885	13,737
Accounts receivable	10	32,036	36,145
Cash	11	9,708	12,244
		1,672,275	1,672,929
Liabilities			
Notes payable and financial liabilities	12	25,145	26,309
Accounts payable	13	4,525	4,544
Income taxes payable	18	93	-
		29,763	30,853
Net assets	15	1,642,512	1,642,076
Number of common shares outstanding		127,026,786	130,182,509
Net asset value per common share		12.93	12.61

On behalf of the Board of Directors of Capital régional et coopératif Desjardins,

________________, Director   ________________, Director

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

Capital régional et coopératif Desjardins

Separate Statements of Comprehensive Income

For the six-month periods ended June 30

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

	Note	2016 $	2015 $
Revenue			
Interest	7	13,432	15,403
Dividends		7,463	6,291
Administrative charges		106	569
		21,001	22,263
Gains (losses) on investments			
Realized		14,854	39,003
Unrealized		23,531	(23,024)
		38,385	15,979
Total revenue and gains (losses) on investments		59,386	38,242
Expenses			
Management fees		13,621	12,447
Other operating expenses	17	2,021	1,004
Shareholder services	17	983	1,017
		16,625	14,468
Earnings before income taxes		42,761	23,774
Income taxes	18	2,779	2,984
Net earnings for the period		39,982	20,790
Weighted average number of common shares		128,161,610	124,016,238
Net earnings per common share		0.31	0.17

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

Capital régional et coopératif Desjardins

Separate Statement of Changes in Net Assets

For the six-month periods ended June 30

(in thousands of Canadian dollars)

	Share capital (note 15)		Retained earnings	Net assets
	Number	$	$	$
Balance – December 31, 2015	130,182,509	1,357,689	284,387	1,642,076
Net earnings for the period	-	-	39,982	39,982
Share capital transactions*				
Redemption of common shares	(3,155,723)	(31,040)	(8,506)	(39,546)
Balance – June 30, 2016	127,026,786	1,326,649	315,863	1,642,512
Balance – December 31, 2014	124,664,633	1,278,650	223,812	1,502,462
Net earnings for the period	-	-	20,790	20,790
Share capital transactions*				
Issuance of common shares	10,888,546	131,207	-	131,207
Share issue expenses, net of $1,006 in taxes	-	(1,516)	-	(1,516)
Redemption of common shares	(5,012,654)	(50,121)	(10,172)	(60,293)
Balance – June 30, 2015	130,540,525	1,358,220	234,430	1,592,650

* This data does not include the redemption requests made within 30 days of subscription.

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

Capital régional et coopératif Desjardins

Separate Statement of Cash Flows

For the six-month periods ended June 30

(in thousands of Canadian dollars)

	2016 $	2015 $
Cash flows from (used in) operating activities		
Net earnings for the period	39,982	20,790
Non-cash items:		
Losses (gains) on investments	(38,385)	(15,979)
Amortization of premiums and discounts on other investments	(270)	1,082
Deferred taxes	736	565
Capitalized interest and other non-cash items	(583)	(712)
Changes in operating assets and liabilities:		
Income taxes recoverable	(1,791)	(4,974)
Accounts receivable	12	804
Income taxes payable	-	(3,336)
Accounts payable	15	(991)
Losses (gains) on cash-related foreign exchange contract	513	-
Acquisitions of investments impacting the Québec economy	(68,133)	(81,793)
Proceeds from disposals of investments impacting the Québec economy	38,722	65,160
Acquisitions of other investments	(453,109)	(645,154)
Proceeds on disposal of other investments	520,459	569,165
	38,168	(95,373)
Cash flows from (used in) financing activities		
Issuance of common shares	-	131,207
Redemption of common shares	(39,546)	(60,293)
	(39,546)	70,914
Net change in cash and cash equivalents during the period	(1,378)	(24,459)
Cash and cash equivalents – Beginning of period	32,595	52,548
Cash and cash equivalents – End of period	31,217	28,089
Supplemental information about cash flows from operating activities		
Interest received	13,019	15,819
Dividend received	6,645	6,279
Income taxes paid	3,834	10,729

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

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

1 Governing statute, administration and investments

Governing statute

Capital régional et coopératif Desjardins ("CRCD") is constituted by an Act of the National Assembly of Québec (C.Q.L.R. chapter C-6.1) (the "Act") and is deemed to have been constituted by the filing of articles on July 1, 2001. CRCD began its activities on November 5, 2001 and is a legal person with share capital. CRCD has business offices at 2 Complexe Desjardins, East Tower, Suite 1717, Montréal, Québec, Canada, and its head office is located at 100 Rue des Commandeurs, Lévis, Québec, Canada.

Administration

The affairs of CRCD are administered by a Board of Directors consisting of 13 members:

- Eight persons appointed by the President of Desjardins Group;
- Two persons elected by the General Meeting of Shareholders;
- Two persons appointed by the aforementioned 10 members from among the persons considered by those members to be representative of the eligible entities described in the Act;
- The Chief Executive Officer of CRCD.

Investments

CRCD may make investments with or without a guarantee or security, mainly in eligible entities. 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 whose assets are less than $100 million or whose net equity is less than or equal to $50 million.

CRCD may invest up to 5% of its assets (as established on the basis of the latest valuation by the chartered professional accountants) in the same eligible company or cooperative, and the investment is generally planned for a period of five to fifteen years. The percentage may be increased up to 10% to enable CRCD to acquire securities in an entity carrying on business in Québec but that is not an eligible entity. In such a case, CRCD may not, directly or indirectly, acquire or hold shares carrying more than 30% of the voting rights that may be exercised under any 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.

As of the fiscal year that began on January 1, 2006, and during each subsequent fiscal year, CRCD's eligible investments, as defined in the Act, must represent on average at least 60% of CRCD's average net assets for the preceding year. As of the fiscal year beginning January 1, 2016, this percentage is gradually increased by 1% per year to reach 65% for the fiscal years beginning after December 31, 2019.

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

Furthermore, a portion representing at least 35% of that percentage (from 60% to 65%) must be made in entities situated in the resource regions of Québec or in eligible cooperatives, as defined in the Act.

Beginning in 2016, penalties are no longer payable if these targets are not met but have been replaced by a reduction of the authorized issue of capital for the capitalization period following the end of the fiscal year. For the fiscal year ended December 31, 2015, which was the last fiscal year for which the penalty was in effect, no amount was payable under those rules.

2 Basis of presentation

Statement of compliance

CRCD has prepared its separate financial statements (the “financial statements”) in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were approved by the Board of Directors on August 18, 2016.

Basis of measurement

These financial statements have been prepared on a fair value basis, except with respect to the financial instruments classified as loans and receivables and other financial liabilities, as well as taxes, which are measured at amortized cost and at cost.

Investment entity

CRCD has several shareholders that are not related parties and holds a number of investments directly or indirectly in underlying funds. Ownership interests in CRCD are in the form of redeemable shares, subject to certain conditions, which are reported in net assets, in accordance with the puttable instrument exemption under IAS 32, *Financial Instruments: Presentation*.

CRCD has concluded that it constitutes an investment entity within the meaning of IFRS 10, *Consolidated Financial Statements*, as it obtains funds from multiple shareholders, commits to its shareholders to invest funds for returns from capital appreciation, and measures and evaluates the performance of its investments on a fair value basis. Accordingly, investments in subsidiaries and associates reported in investments impacting the Québec economy are recognized at fair value.

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

3 Significant accounting policies

The significant accounting policies used in preparing these financial statements are set out below.

Financial instruments

CRCD accounts for its financial instruments at fair value on initial recognition. Purchases and sales of financial assets are recognized at the trade date. Financial assets and financial liabilities are classified into various categories based on their characteristics and CRCD's intention upon their acquisition and issuance. Investments impacting the Québec economy, other investments, amounts receivable on disposal of investments impacting the Québec economy and notes payable and financial liabilities are designated at fair value through profit or loss. Those financial instruments are part of a portfolio managed in accordance with a documented investment management strategy and whose performance is evaluated on a fair value basis. In addition, information about the portfolio is provided internally on that basis to CRCD's key management personnel.

Cash and other accounts receivable are classified in loans and receivables, and accounts payable, in other financial liabilities. Those financial instruments are recognized at amortized cost, which approximates their fair value.

Financial liabilities are derecognized when the liability is extinguished, that is when the obligation specified in the contract is discharged or cancelled, or expires.

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 measurement date.

Fair value of assets and liabilities traded in a market

The fair value of assets and liabilities traded in a market considered as active is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances. In certain cases, if the market is not considered an active market, the most recent quoted price between the bid-ask spread may be adjusted to adequately reflect fair value.

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

Fair value of assets and liabilities not traded in a market

When assets and liabilities are not market traded, fair value is determined using valuation techniques chosen based on set criteria and prevailing market conditions at each reporting date. The principal financial instruments not traded in a market are included in investments impacting the Québec economy. The techniques used are based on valuation principles including guidelines generally used in the industry by business valuation professionals. Those valuation principles have been approved by CRCD's Board of Directors. The valuation method for a financial instrument is generally consistent from period to period, except where a change will result in more accurate estimates of fair value. Given the evolving environment specific to each entity underlying the financial instruments, changes to valuation techniques occur in each reporting period.

Loans and advances, non-participating shares

The fair value of loans and advances and non-participating shares is determined by discounting CRCD's expected contractual cash flows using a discount rate reflecting the return it would demand in light of entity-specific credit risk.

Participating shares

The main technique used to determine the fair value of participating shares is the capitalization of cash flows. Two key variables used in that technique are representative cash flow and the capitalization rate. To determine representative cash flow, recurring cash flows are estimated using the entity's historical results and/or financial forecasts. A risk weight is subsequently applied to each of the cash flows thus determined to reflect its probability of occurrence. The rate used to capitalize the representative cash flow thus obtained reflects the way in which the entity could fund its operations and the risks associated with the occurrence of that representative cash flow.

Where the price of a recent arm's length market transaction between knowledgeable, willing parties is available, this valuation technique is used. It may also be appropriate to use a technique based on a third party purchase offer when deemed bona fide and credible. The use of judgment is required in determining whether the fair value of the recent transaction or purchase offer is the best evidence of fair value at the measurement date. The period during which it is deemed appropriate to refer to a past transaction or purchase offer depends on the circumstances specific to each investment.

Another valuation technique used is adjusted net assets, which consists in remeasuring all assets and liabilities on the balance sheet of the entity or fund at their fair value at the measurement date. The key adjustments made are related to the fair value of assets and liabilities, newly available information and significant events that occurred between the balance sheet date of the entity or the fund and the measurement date.

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

Global equities

Investments in global equity funds are recorded at their fair value. Fair value represents net assets per unit as determined by the funds at the balance sheet date.

Guarantee

When it is probable that CRCD is required to make a payment under guarantee it has provided, the liability to be recognized is estimated using an asset-based approach and a liquidation value method.

Notes payable and financial liabilities

Notes payable and financial liabilities are related to acquisitions of certain investments impacting the Québec economy and are recognized at fair value, which represents the amount payable by CRCD under the notes and financial liabilities' underlying contractual agreements at the reporting date.

Amounts receivable on disposal of investments impacting the Québec economy

The fair value of amounts receivable on disposal of investments impacting the Québec economy is determined by discounting contractual cash flows and considers the debtor's credit risk in particular. Typically, estimating the amounts receivable and the timing of their collection depends on whether specified future events occur or conditions are met.

Cash and cash equivalents

Cash and cash equivalents consist of cash and money market instruments with purchased maturities of less than 90 days.

Share capital

The shares of CRCD are redeemable at the holder's option subject to certain conditions and therefore constitute financial liabilities. However, they are reported in net assets, as they have all of the following features:

- They entitle the shareholder to a pro rata share of CRCD's net assets in the event of CRCD's liquidation;
- They are in the class of instruments that is subordinate to all other classes of instruments of CRCD;
- They have identical features to all other instruments in that class;

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

- Apart from the contractual obligation for CRCD 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 CRCD, and it is not a contract that will or may be settled in CRCD's shares;
- The total expected cash flows attributable to the shares over their life are based substantially on net earnings, the change in recognized net assets or the change in fair value of the recognized and unrecognized net assets of CRCD over the life of the shares (excluding any effects of the shares).

Share issuance costs, net of taxes, are reported in the Statements of Changes in Net Assets.

Revenue recognition

Interest and dividends

For investments impacting the Québec economy, interest is recognized at the contractual rate, as collection is reasonably assured. For other investments, interest is recognized using the effective interest method. Amortization of premiums and discounts, calculated using the effective interest method, is recognized in profit or loss under "Interest."

Dividends are recognized as at the holder-of-record date and when they are declared or received by the issuing companies.

Administrative charges

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

Gains and losses

Realized gains and losses on investments are recognized at the time of sale and represent the difference between sales proceeds and cost. Variations in the fair value of amounts receivable on disposal of investments are considered adjustments to sales proceeds and are therefore recorded as realized gains and losses. Realized gains and losses on a note payable or financial liability are recognized when paid and represent the difference between the amount CRCD paid to settle the note or financial liability and its initial value. The realized gains and losses do not take into account the unrealized gains and losses recognized in previous period, which are reversed and reported in unrealized gains and losses for the current period.

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

Functional currency and foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, CRCD's functional currency, at the exchange rate prevailing at the end of the reporting period. Revenues and expenses are translated at the exchange rate prevailing on the transaction date. Realized and unrealized gains and losses on investments arising from those translations are accounted for in the Statements of Comprehensive Income under "Gains (losses) on investments". For other monetary assets and liabilities denominated in foreign currencies, changes related to foreign currency translation are reported under "Other operating expenses" in the Statements of Comprehensive Income. CRCD aims to systematically hedge currency risk for assets measured in foreign currency, unless the exposure stems from the long-term expected returns of certain asset classes. CRCD has decided not to apply hedge accounting.

Taxes

The income tax expense comprises current taxes and deferred taxes. Income taxes are recognized in the Statements of Comprehensive Income, unless they relate to items that were recognized outside earnings directly in the Statements of Changes in Net Assets. In such cases, income taxes are also recognized outside profit or loss directly in net assets.

Current tax is the tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for deferred tax on unrealized gains, discussed in the following paragraph. Deferred tax is calculated on an undiscounted basis using enacted or substantively enacted tax rates and legislation at the end of the reporting period that are expected to apply in the period in which the deferred tax asset will be realized and the deferred tax liability will be settled. Deferred tax assets are generally recognized only to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized.

CRCD is subject to federal and Québec income taxes. It is also subject to the tax rules applicable to mutual fund corporations. For federal tax purposes, CRCD may, in particular, obtain a refund of its tax paid on capital gains through the redemption of its shares. CRCD considers it is, in substance, exempt from federal income tax related to capital gains (losses) for the purposes of applying IFRS and, accordingly, does not recognize any deferred taxes relating to unrealized gains (losses) on investments or deferred taxes related to unrealized recoveries resulting from tax mechanisms related to refundable capital gains tax on hand. For Québec tax purposes, realized capital gains (losses) are not taxable (deductible).

Net earnings per common share

Net earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

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

4 Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires CRCD to make judgments, estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenue and expenses and the related disclosures. Changes in assumptions can have a material effect on the financial statements for the period in which those assumptions were changed. CRCD considers the assumptions used to be appropriate and accordingly that its financial statements present fairly its financial position and its results.

The significant accounting policy that required CRCD to make subjective or complex judgments, often about matters that are inherently uncertain, pertains to the fair value measurement of assets and liabilities not traded in an active market.

A significant judgment is made in the assumptions used in the valuation techniques. While those techniques make as much use as possible of observable inputs, fair value is also determined based on internal inputs and estimates (unobservable inputs) that take into account the features specific to the financial instrument and any relevant measurement factor. The use of unobservable inputs requires CRCD to exercise judgment to ensure that those inputs reflect the assumptions that market participants would use to determine fair value based on the best information available in the circumstances. CRCD considers observable data 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, for that reason, may not be representative of future fair values.

In accordance with the requirements contained in the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure* issued by the Autorité des marchés financiers, CRCD has implemented various controls and procedures to ensure that financial instruments are appropriately and reliably measured. The valuations have been prepared by a team of qualified valuators relying on a structured process composed of several validation and review stages. The Portfolio Valuation Committee, whose members consist mainly of independent qualified valuators, monitors operational risk related to non-compliance with the portfolio valuation methodology and reports to the Board of Directors semi-annually. More specifically, its role consists in performing semi-annual reviews of all relevant information regarding the valuations of CRCD's portfolio of investments impacting the Québec economy to provide reasonable assurance that the valuation process meets regulatory requirements.

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

5 Accounting standards issued but not yet adopted

The accounting standards to be applied by CRCD that have been issued by the IASB but were not yet effective on June 30, 2016 are discussed below.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a single comprehensive accounting model for all contracts with customers except for contracts within the scope of other standards, such as insurance contracts and financial instruments. IFRS 15 supersedes the two main revenue recognition standards, IAS 18, *Revenues*, and IAS 11, *Construction Contracts*, as well as the related interpretations. 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 value of the consideration received or expected to be received in exchange for those goods or services. The new standard also provides more guidance on certain types of transactions and will result in enhanced revenue disclosures.

In September 2015, the IASB issued an amendment to IFRS 15 to defer its effective date to January 1, 2018. In April 2016, the IASB issued additional amendments to IFRS 15 to further clarify revenue recognition and transitional provisions with respect to initial application.

CRCD is currently assessing the impact of adopting IFRS 15, which will be applicable for annual periods beginning on or after January 1, 2018.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the complete and final version of IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 covers requirements related to the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and general hedge accounting requirements.

IFRS 9 establishes a new classification and measurement model for financial assets to determine whether a financial asset must be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the characteristics of the contractual cash flows of the financial asset and on the business model under which it is held. For the classification and measurement of financial liabilities, the new standard essentially follows the current requirements under IAS 39.

The standard also introduces a single impairment model for financial assets that requires recognizing expected credit losses instead of incurred losses, which is the requirement under the current impairment model. The model provides for recognition of 12-month expected credit losses from the date of the initial recognition of the financial asset and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

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

Lastly, IFRS 9 includes a new hedge accounting model to align hedge accounting more closely with risk management activities. However, IFRS 9 allows the existing hedge accounting requirements under IAS 39 to continue in place of the hedge accounting requirements under IFRS 9.

The effective date of IFRS 9 is set for annual periods beginning on or after January 1, 2018. CRCD is currently assessing the impact of adopting this standard.

6 Risks associated with financial instruments

The risks associated with financial instruments that affect CRCD's financial position are discussed in detail in the audited sections "Market Risks," "Credit and Counterparty Risk", "Concentration Risk" and "Liquidity Risk" of CRCD's Management's Discussion and Analysis and are an integral part of these audited financial statements.

7 Investments impacting the Québec economy

The Audited Schedule of Cost of Investments Impacting the Québec Economy is available on written request to CRCD's head office or on our website at capitalregional.com and on SEDAR at www.sedar.com. The Schedule does not form an integral part of the financial statements.

			As at June 30, 2016
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Unsecured			
Common shares	286,741	30,871	317,612
Preferred shares	181,101	17,093	198,194
Fund units	193,407	47,142	240,549
Loans and advances	109,827	645	110,472
Secured			
Loans and advances	5,189	(782)	4,407
	776,265	94,969	871,234

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

			As at December 31, 2015
	Cost $	Unrealized gain (loss) $	Fair value $
Unsecured			
Common shares	269,092	21,041	290,133
Preferred shares	169,966	10,888	180,854
Fund units	188,195	47,715	235,910
Loans and advances	104,455	(416)	104,039
Secured			
Loans and advances	6,888	(625)	6,263
	738,596	78,603	817,199

Investments impacting the Québec economy include investments measured in U.S. dollars with a fair value of $77.8 million ($58.4 million as at December 31, 2015).

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 10.4% (11.1% as at December 31, 2015). The interest rate is fixed for substantially all interest-bearing loans and advances. For the six-month period ended June 30, 2016, interest income recognized at the contractual rate amounted to $6.1 million ($7.2 million for the six-month period ended June 30, 2015). Substantially all of the change in the fair value of loans and advances resulted from changes in credit risk.

Loans and advances have an annual residual maturity of 4.0 years (4.0 years as at December 31, 2015) and the fair market value of the current portion is $6.5 million ($4.0 million as at December 31, 2015)

Allocation of investments and funds committed by segment

Investments and funds committed are allocated by segment as follows:

					As at June 30, 2016
Segment	Investments at cost $	Unrealized gain (loss) $	Fair value $	Funds committed but not disbursed* $	Total commitment $
Manufacturing	360,702	57,758	418,460	2,612	421,072
Services	196,533	14,338	210,871	1,900	212,771
Technological innovations	25,623	(24,269)	1,354	-	1,354
Funds	193,407	47,142	240,549	131,076	371,625
Total	776,265	94,969	871,234	135,588	1,006,822

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

					As at December 31, 2015
Segment	**Investments at cost $**	**Unrealized gain (loss) $**	**Fair value $**	**Funds committed but not disbursed* $**	**Total commitment $**
Manufacturing	328,212	57,078	385,290	7,947	393,237
Services	196,540	(1,863)	194,677	9,400	204,077
Technological innovations	25,649	(24,327)	1,322	-	1,322
Funds	188,195	47,715	235,910	153,735	389,645
Total	738,596	78,603	817,199	171,082	988,281

* Funds committed but not disbursed are not included in CRCD's assets.

Funds committed but not disbursed

Funds committed but not disbursed represent investments that have already been agreed upon and for which amounts have been committed but not disbursed by CRCD at the reporting 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:

2016 (6 months) $	2017 $	2018 $	2019 $	2020 and thereafter $	Total $
39,366	20,742	14,581	11,983	48,916	135,588

Investments in subsidiaries and associates

Subsequent to quantitative and qualitative analyses, CRCD has determined that it has control (subsidiaries) or exercises significant influence (associates) over the following number of entities:

	As at June 30, 2016		As at December 31, 2015	
	Number	**Fair value $**	**Number**	**Fair value $**
Subsidiaries				
Partner companies	11	237,639	10	197,018
Associates				
Partner companies	19	158,343	18	140,217
Funds	7	219,946	7	211,194

The principal place of business of these entities is in Québec, and the country of incorporation is Canada.

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

The increase in the number of partner companies as at June 30, 2016 resulted from the acquisition of one subsidiary and one associate.

Interests in the share capital of these partner companies comprise common shares and preferred shares. The percentage of equity securities held by CRCD in each of the partner companies is equal to or over 50% for the subsidiaries, and between 15% and 49% for associates. Except for a subsidiary (one subsidiary as at December 31, 2015), the voting rights for these partner companies are equivalent to the proportion of interests held.

As sponsor, CRCD has invested in certain funds over which it exercises significant influence. As at June 30, 2016, the interests are made up of units and the holding percentage varies from 20.0% to 90.9% (20.0% to 90.9% as at December 31, 2015).

8 Other investments

The Unaudited Statement of Other Investments is available on written request to CRCD's head office or on our website at capitalregional.com and on SEDAR at www.sedar.com. The Statement does not form an integral part of the financial statements.

			As at June 30, 2016
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Bonds			
Federal or guaranteed	206,298	3,290	209,588
Provincial, municipal or guaranteed	172,116	4,591	176,707
Financial institutions	111,550	2,134	113,684
Companies	53,782	1,565	55,347
	543,746	11,580	555,326
Preferred shares	83,871	(9,686)	74,185
Money market instruments(1)	49,324	-	49,324
Real estate funds	13,775	793	14,568
Global equity funds	50,000	1,677	51,677
Foreign exchange contracts(2)	-	(668)	(668)
Total	740,716	3,696	744,412

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

Breakdown of bonds by maturity date

	Under 1 year $	1 to 5 years $	Over 5 years $	As at June 30, 2016 Total $
Cost	2,116	246,317	295,313	543,746
Par value	2,100	243,521	311,230	556,851
Fair value	2,127	248,776	304,423	555,326
Average nominal rate(3)	3.79%	2.39%	2.46%	2.44%
Average effective rate	2.66%	1.89%	2.32%	2.13%

	Cost $	Unrealized gain (loss) $	As at December 31, 2015 Fair value $
Bonds			
Federal or guaranteed	304,466	2,670	307,136
Provincial, municipal or guaranteed	155,934	1,112	157,046
Financial institutions	136,165	1,939	138,104
Companies	61,232	1,025	62,257
	657,797	6,746	664,543
Preferred shares	87,935	(10,179)	77,756
Money market instruments(1)	37,607	-	37,607
Real estate funds	12,790	346	13,136
Foreign exchange contracts(2)	-	562	562
Total	796,129	(2,525)	793,604

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

Breakdown of bonds by maturity date

	As at December 31, 2015			
	Under 1 year $	1 to 5 years $	Over 5 years $	Total $
Cost	6,694	325,056	326,047	657,797
Par value	6,634	320,614	339,960	667,208
Fair value	6,756	328,289	329,498	664,543
Average nominal rate(3)	3.64%	2.52%	2.45%	2.49%
Average effective rate	2.66%	2.05%	2.34%	2.20%

(1) Money market instruments consist of term deposits, treasury bills and strip bonds with an original maturity of less than a year.

(2) Foreign exchange contracts to sell US$81.3 million have three-month maturities (US$62.7 million as at December 31, 2015).

(3) Substantially all bonds bear interest at a fixed rate.

Other investments include global equity funds which represent foreign currency exposure with a fair value of $47.6 million (nil as at December 31, 2015).

Funds committed but not disbursed

Funds committed but not disbursed represent investments in the real estate funds that have been agreed upon and for which amounts have been committed by CRCD but not yet disbursed at the reporting date. The estimated instalments over the coming years ended December 31 are as follows:

2016 (6 months) $	2017 $	2018 $	2019 $	2020 and thereafter $	Total $
26,023	40,000	-	-	-	66,023

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

9 Fair value of financial instruments

Hierarchy levels of financial instruments measured at fair value

CRCD categorizes its financial instruments according to the following three hierarchical levels:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the breakdown by level of the fair value measurements of financial instruments recognized at fair value in the Balance Sheets.

				As at June 30, 2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Investments impacting the Québec economy	512	-	870,722	871,234
Other investments	497,074	232,770	14,568	744,412
Amounts receivable on disposal of investments impacting the Québec economy	-	-	24,749	24,749
Total financial assets	497,586	232,770	910,039	1,640,395
Financial liabilities				
Notes payable and financial liabilities	-	-	25,145	25,145

				As at December 31, 2015
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Investments impacting the Québec economy	826	-	816,373	817,199
Other investments	525,929	254,539	13,136	793,604
Amounts receivable on disposal of investments impacting the Québec economy	-	-	28,846	28,846
Total financial assets	526,755	254,539	858,355	1,639,649
Financial liabilities				
Notes payable and financial liabilities	-	-	26,309	26,309

Transfers between hierarchy levels of financial instruments measured at fair value are made at the reporting date. No transfers between hierarchy levels took place during the six-month period ended June 30, 2016 and the year ended December 31, 2015.

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

Level 3 financial instruments

The following tables present the reconciliation between the beginning and ending balances of Level 3 financial instruments:

	For the six-month period ended June 30, 2016			
	Investments impacting the Québec economy $	Other investments $	Amounts receivable on disposal of investments impacting the Québec economy $	Notes payable and financial liabilities $
Fair value as at December 31, 2015	816,373	13,136	28,846	(26,309)
Realized gains (losses)	3,578	-	(3,642)	733
Unrealized gains (losses)	16,680	447	-	431
Acquisitions/issuances	68,716	1,187	1,072	-
Disposals/repayments	(34,625)	(202)	(1,527)	-
Fair value as at June 30, 2016	870,722	14,568	24,749	(25,145)
Unrealized gains (losses) in comprehensive income on investments and notes payable and financial liabilities as at June 30, 2016	22,194	447	-	431

	For the six-month period ended June 30, 2015			
	Investments impacting the Québec economy $	Other investments $	Amounts receivable on disposal of investments impacting the Québec economy $	Notes payable and financial liabilities $
Fair value as at December 31, 2014	710,029	2,986	22,134	(22,148)
Realized gains (losses)	34,092	-	4,193	-
Unrealized gains (losses)	(16,176)	75	-	(570)
Acquisitions/issuances	82,506	108	5,073	-
Disposals/repayments	(73,810)	(149)	(616)	-
Fair value as at June 30, 2015	736,641	3,020	30,784	(22,718)
Unrealized gains (losses) in comprehensive income on investments and notes payable and financial liabilities as at June 30, 2015	9,806	75	-	(570)

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

The following tables present the main techniques and inputs used to measure the fair value of Level 3 financial instruments:

				As at June 30, 2016
	Fair value $	Main valuation techniques	Unobservable inputs	Input value range (weighted average)
Investments impacting the Québec economy				
Loans and advances	43,507	Discounted cash flows	Required return	7.6% to 19.8% (11.6%)
Non-participating shares	129,137	Discounted cash flows	Required return	5.1% to 11.8% (6.6%)
Participating controlling shares	183,234	Capitalized cash flows	Capitalization rate	7.4% to 10.4% (9.1%)
			% of representative cash flows(1)	8.0% to 25.4% (13.5%)
	45,940	Recent transactions and bids	Paid/bid price	-
	8,465	Restated net assets	Entity's net assets	-
Participating non-controlling shares	147,844	Capitalized cash flows	Capitalization rate	7.2% to 16.1% (9.6%)
			% of representative cash flows(1)	1.4% to 28.5% (12.4%)
	48,225	Recent transactions and bids	Paid/bid price	-
	20,804	Restated net assets	Entity's net assets	-(2)
	3,017	Other(3)	-	-
Fund units	240,549	Restated net assets	Fund's net assets	-(2)
	870,722			
Other investments – Real estate fund	14,568	Restated net assets	Fund's net assets	-(2)
Amounts receivable on disposal of investments impacting the Québec economy	24,749	Discounted cash flows	Required return	0.5% to 10.0% (6.5%)
Notes payable and financial liabilities	(25,145)	Miscellaneous	-	-

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

	Fair value $	Main valuation techniques	Unobservable inputs	Input value range (weighted average) As at December 31, 2015
Investments impacting the Québec economy				
Loans and advances	49,283	Discounted cash flows	Required return	7.3% to 26.3% (11.2%)
Non-participating shares	129,168	Discounted cash flows	Required return	5.2% to 10.2% (5.8%)
Participating controlling shares	165,286	Capitalized cash flows	Capitalization rate	8.5% to 12.1% (9.6%)
			% of representative cash flows[1]	8.4% to 17.4% (10.9%)
	31,733	Recent transactions and bids	Paid/bid price	-
Participating non-controlling shares	124,171	Capitalized cash flows	Capitalization rate	7.2% to 16.4% (9.8%)
			% of representative cash flows[1]	1.4% to 28.5% (12.1%)
	60,073	Recent transactions and bids	Paid/bid price	-
	17,973	Restated net assets	Entity's net assets	-[2]
	2,775	Other[3]	-	-
Fund units	235,911	Restated net assets	Fund's net assets	-[2]
	816,373			
Other investments – Real estate fund	13,136	Restated net assets	Fund's net assets	-[2]
Amounts receivable on disposal of investments impacting the Québec economy	28,846	Discounted cash flows	Required return	0.5% to 12.0% (6.2%)
Notes payable and financial liabilities	(26,309)	Miscellaneous	-	-

(1) As the entities comprising the portfolio vary widely in size, representative cash flows are presented as a percentage of sales.

(2) As the entities and funds comprising the portfolio vary widely in size, no input value range is provided for the net assets of the entity/fund.

(3) Other valuation techniques include discounted transaction value, redemption value and liquidation value methods.

The main valuation techniques used for participating shares take into account investments made in a single entity in the form of loans and advances, and non-participating shares. Accordingly, the fair value of participating shares includes these mixed investments.

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

Sensitivity of fair value to unobservable inputs

Although CRCD considers that fair value estimates made for the financial statements are appropriate, if different assumptions were used for unobservable inputs, the results could be different.

Loans and advances, non-participating shares – Discounted cash flows

An increase (decrease) in the required return, all other factors remaining constant, generally results in a decrease (increase) in fair value. According to CRCD, changing one or more reasonably possible assumptions could result in a change in the required return of about 0.5%. However, such a change in the required return would not have a direct material impact on the fair value of loans and advances, and non-participating shares.

Participating shares – Capitalized cash flows

If different assumptions were used for the two unobservable inputs, namely representative cash flows and capitalization rate, to measure a given investment, the fair value of the investment could increase or decrease. However, since these two unobservable inputs are interrelated, the use of different assumptions for one of these inputs generally leads to a revised assumption for the other input, thereby limiting the impact on fair value.

Typically, CRCD determines a range of acceptable fair values for each investment measured and uses the mid-point of the range for financial statement reporting purposes. If all the ranges are summed up, the cumulative difference between the top and bottom acceptable fair values and the investment fair value expressed as a percentage of CRCD's net assets is approximately:

	As at June 30, 2016	**As at December 31, 2015**
Participating controlling shares	+/− 0.6%	+/− 0.3%
Participating non-controlling shares	+/− 0.4%	+/− 0.4%

According to CRCD, for each investment subject to measurement, the impact of a change in the two unobservable inputs to reflect other reasonably possible assumptions should be less than this percentage on the net assets of CRCD.

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

Participating shares – Recent transactions and bids

According to these techniques, the fair value of participating shares is based on an observable input, namely the price of a recent transaction negotiated between unrelated parties or the price of a bid received. CRCD must use judgment to determine whether the recent transaction is still representative of the fair value as at the measurement date or whether the bid is serious and credible. CRCD may also, if necessary, make any adjustments considered required and include unobservable inputs in the fair value measurement. The amount of the adjustments is generally immaterial compared with the related transaction or bid price used. CRCD considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not be materially different from the fair value used.

Fund units – Restated net assets

According to this technique, the fair value of fund units is based on an observable input, namely the net assets reported in the most recent audited financial statements of each fund held and adjusted if necessary to reflect the acquisitions or disposals of fund units made by CRCD between the financial statement reporting date for each fund and the valuation date. In certain circumstances, CRCD must make certain other adjustments that are more judgmental in nature. CRCD considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not have been materially different from the fair value used.

Other valuation techniques

Since the fair value of assets measured using other techniques is not significant, CRCD considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not have been materially different from the fair value used.

10 Accounts receivable

	As at June 30, 2016 $	As at December 31, 2015 $
Interest, dividends and distributions receivable on investments	7,287	7,299
Amounts receivable on disposal of investments impacting the Québec economy	24,749	28,846
	32,036	36,145

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

The change in fair value of amounts receivable on disposal of investments impacting the Québec economy is not attributable to changes in credit risk. These amounts receivable include amounts denominated in U.S. dollars for $23.2 million ($27.3 million as at December 31, 2015).

Based on the information available as at the reporting date and the assumptions made as to the timing of collection, CRCD expects to collect accounts receivable with a fair value of $10.4 million ($26.9 million as at December 31, 2015) no later than 12 months after the reporting date.

11 Cash and cash equivalents

	As at June 30, 2016 $	As at December 31, 2015 $
Cash	9,708	12,244
Money market instruments	21,509	20,351
	31,217	32,595

12 Notes payable and financial liabilities

On November 30, 2010, CRCD acquired from Desjardins Venture Capital L.P., a subsidiary of Fédération des caisses Desjardins du Québec, investments impacting the Québec economy with a fair value of $17.6 million as consideration for notes of an 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 CRCD on the sale of the related investment. If the amount received by CRCD at the time of sale is less than the initial cost of the investment, the amount of the note will be adjusted based on the amount received. However, if the amount received by CRCD at the time of disposal 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 assumed by CRCD in respect of investments between their dates of acquisition and their dates of disposal are deducted from the amount of the related note.

Notes payable had an initial maturity of three years and were renewed up to May 31, 2017.

Financial liabilities are amounts that CRCD would have to pay under contractual agreements and whose fair value is determined according to changes in fair value of certain underlying investments impacting the Québec economy.

As at June 30, 2016, notes payable and financial liabilities with a fair value of $23.0 million were related to investments impacting the Québec economy measured in U.S. dollars ($24.1 million as at December 31, 2015).

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

The payment of notes payable and financial liabilities is directly related to receipts in connection with disposals of certain investments impacting the Québec economy. Given that the timing of such receipts is contingent on whether future events occur or specific conditions are met, CRCD is not in a position to determine the period during which it will pay the notes payable and financial liabilities. However, as payment typically follows receipts, liquidity risk is low.

13 Accounts payable

	As at June 30, 2016 $	As at December 31, 2015 $
Trade payables and accrued liabilities	2,318	1,817
Other	2,207	2,727
	4,525	4,544

CRCD expects to pay its accounts payable no later than 12 months after the reporting date.

14 Line of credit

CRCD has an authorized line of credit of $10 million with Caisse centrale Desjardins, bearing interest at the operating credit rate of Caisse centrale Desjardins plus 0.5%. This line of credit is secured by a portion of the money market instruments and bonds recorded in other investments and is renewable annually. As at June 30, 2016 and December 31, 2015, the line of credit was undrawn. The line of credit was not used during the first six months of 2016 or during fiscal 2015.

15 Share capital

Authorized

CRCD 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 prescribed by the Act, so that its capital increases by a maximum of $150 million annually.

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

According to the Act, as of the capitalization period following the one at the end of which CRCD first reaches capitalization of at least $1.25 billion, CRCD may raise, 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 CRCD during the preceding capitalization period.

Each capitalization period, which lasts 12 months, begins on March 1 of each year. A special tax is payable by CRCD if it fails to comply with these limits, and control mechanisms have been implemented by CRCD to ensure compliance.

On February 28, 2014, CRCD reached its capitalization limit. Despite the provisions of its constituting act, the Minister of Finance of Québec in his Budget Speech of March 17, 2016, authorized CRCD exceptionally to raise a maximum amount of $135 million for each of the capitalization periods from March 1, 2016 to February 28, 2017 and from March 1, 2017 to February 28, 2018. The provincial tax credit granted by the Québec government for purchasing shares was set at 40%.

To allow as many shareholders as possible to buy CRCD shares, purchases are capped at $3,000 per investor for each of the 2016 and 2017 issues.

CRCD is required to pay share issuance costs. Those costs are presented net of taxes, as a deduction from share capital. For the six-month period ended June 30, 2016, there were no share issuance costs ($1.7 million for the year ended December 31, 2015).

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

Issued

The net assets of CRCD as at June 30, 2016 totalled $1,642.5 million broken down by issue as follows:

Issue	Issue price $	Balance* $M	Eligible for redemption
2001	10.00	28.1	2008
2002	10.00	78.0	2009
2003	10.12 and 10.24	39.2	2010
2004	10.25	48.6	2011
2005	10.25	53.7	2012
2006	10.37 and 10.21	52.3	2013
2007	10.21 and 9.92	73.5	2014
2008	9.89 9.83 and 9.54	124.3	2015
2009	9.54 9.62 and 9.73	184.5	2016
2010	9.73 and 9.80	195.7	2017
2011	9.91 and 10.02	193.4	2018
2012	11.02	174.6	2019
2013	11.47	168.1	2020
2014	11.92	68.1	2021
2015	12.05	160.4	2022
Net assets		1,642.5	

* Calculated as net asset value per share as at June 30, 2016

Redemption criteria

CRCD 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 CRCD 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 CRCD if that person applies to CRCD in writing within 30 days of subscription date; and
- At the request of a person who acquired it from CRCD if that person is declared to have a severe and permanent mental or physical disability that makes her/him incapable of working.

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

Moreover, CRCD may purchase a common share or a fraction of a 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.

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

Tax credit

The purchase of shares of CRCD entitles the investor to receive a non-refundable tax credit, for Québec tax purposes only, determined as follows:

- For purchases prior to March 24, 2006: 50% tax credit;
- For purchases from March 24, 2006 to November 9, 2007: 35% tax credit;
- For purchases from November 10, 2007 to February 28, 2014: 50% tax credit;
- For purchases from March 1, 2014 to February 29, 2016: 45% tax credit; and
- For purchases from March 1, 2016: 40% tax credit.

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 current or subsequent taxation years.

16 Capital disclosures

CRCD'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. CRCD's capital consists of its net assets.

CRCD is not subject to any external capital requirements other than those governing the issuance and redemption of its shares, as indicated in note 15.

CRCD's policy is to reinvest the annual earnings 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.

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

17 Expenses

	For the six-month periods ended June 30,	
	2016 $	2015 $
Other operating expenses		
Audit fees	100	99
Compensation of members of the Board of Directors and its committees	341	325
Custodial and trustee fees	65	54
IT expenses	463	350
Share distribution automation fees	353	-
Other expenses	699	176
	2,021	1,004
Shareholder services		
Trustee fees	832	822
Reporting to shareholders	50	134
Other expenses	101	61
	983	1,017

18 Income taxes

Income tax expense

Income tax expense is detailed as follows:

	For the six-month periods ended June 30,			
	2016		2015	
	Statement of Comprehensive Income $	Statement of Changes in Net Assets $	Statement of Comprehensive Income $	Statement of Changes in Net Assets $
Current	2,043	(284)	2,419	(273)
Deferred	736	284	565	(733)
	2,779	-	2,984	(1,006)

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

Reconciliation of the income tax rate

The actual income tax rate differs from the basic income tax rate for the following reasons:

	For the six-month periods ended June 30,	
	2016	2015 $
Income taxes at the combined basic tax rate of 39.9%	17,062	9,486
Permanent differences between earnings before income taxes and taxable income and other items		
Realized and unrealized losses (gains) on investments	(12,617)	(3,982)
Non-taxable dividends	(2,978)	(2,510)
Other	1,312	(10)
	2,779	2,984

Income tax balance

Income tax expense recognized in the Balance Sheets is detailed as follows:

	As at June 30, 2016 $	As at December 31, 2015 $
Assets		
Deferred taxes – Share issue expenses	-	1,702
Deferred taxes – Other	-	(775)
Refundable tax on hand	13,193	12,119
Income taxes recoverable	1,692	691
	14,885	13,737
Liabilities		
Deferred taxes – Share issue expenses	(1,418)	-
Deferred taxes – Other	1,511	-
	93	-

CRCD expects to recover $2.9 million ($2.4 million recoverable as at December 31, 2015) in income taxes no later than 12 months after the reporting date.

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

19 Related party transactions

Related parties include Desjardins Venture Capital ("DVC"), CRCD's manager, which is a subsidiary of Fédération des caisses Desjardins du Québec and is part of Desjardins Group. CRCD is therefore indirectly related to Desjardins Group. Related parties also include CRCD's key management personnel.

- CRCD has entrusted DVC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The five-year management agreement, effective January 1, 2013, provides for the invoicing of separate fees for the Desjardins caisse network's contribution in distributing CRCD's shares. Under the management agreement, certain governance expenses are allocated to CRCD. Negotiation fees are earned by DVC with a credit of an equal amount applied against CRCD's management fees.

  Under this agreement, CRCD was committed until December 31, 2015 to pay management fees equal to 2.02% of CRCD's annual average asset value, less any amounts payable related to investments impacting the Québec economy and other investments. An adjustment is made to the management fees charged to CRCD to avoid double billing relative to CRCD's interest in some funds. These fees are currently being renegotiated. The rate of 2.02% will remain the same or be revised downward as of fiscal 2016, as any upward revision has been ruled out.

- CRCD has appointed Desjardins Trust Inc. ("Desjardins Trust") as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. Since CRCD began its operations, Desjardins Trust has represented the largest component of CRCD's shareholder service expenses. This agreement, which expired on December 31, 2015, was renewed under the same conditions until June 30, 2016 except for the fee rate, which was adjusted on January 1, 2015. A new agreement will come into effect on July 1, 2016 and remain in force until December 31, 2020, based on the same fee rate as revised on January 1, 2015.

- CRCD 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.

- CRCD has appointed Fédération des caisses Desjardins du Québec to distribute its shares through the Desjardins caisse network. A new agreement will come into effect on July 1, 2016 and remain in force until December 31, 2020. Under this agreement, CRCD has committed to pay annual fees of $325,000 until December 31, 2017. These fees could be revised as of fiscal 2018. CRCD has also made a commitment to pay any required project fees to complete development work on the tools and applications which support its share distribution process.

- CRCD has entrusted the Desjardins caisse network with issuing its shares.

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

- CRCD has entrusted Caisse centrale Desjardins with the banking operations associated with its day-to-day activities and to act as principal for foreign exchange contracts.
- CRCD has appointed Desjardins Securities as its full service broker, to serve as an intermediary for buying and selling shares traded on public markets.
- CRCD has entrusted Groupe Technologies Desjardins with its IT development strategy (IT master plan), in particular the implementation and evolution of new investment management software.
- CRCD holds securities issued by Caisse centrale Desjardins in its other investments portfolio.

Related party transactions

CRCD has entered into transactions with other Desjardins Group entities in the normal course of business, and all these transactions are measured at the exchange amount. Unless otherwise indicated, none of the transactions incorporated special terms or conditions. The balances are generally settled in cash. The transactions and balances are detailed as follows:

			As at June 30, 2016			As at December 31, 2015
	DVC $	Other related parties* $	Total $	DVC $	Other related parties* $	Total $
Balance Sheets						
Assets						
Other investments	-	4,764	4,764	-	9,653	9,653
Interest and dividends receivable on investments	-	31	31	-	73	73
Cash	-	10,013	10,013	-	12,387	12,387
Liabilities						
Notes payable and financial liabilities	-	20,125	20,125	-	20,556	20,556
Accounts payable	2,207	410	2,617	2,727	397	3,124

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

	For the six-month periods ended June 30,					
			2016			2015
	DVC $	Other related parties* $	Total $	DVC $	Other related parties* $	Total $
Statements of Comprehensive Income						
Revenue						
Interest	-	59	59	-	86	86
Gains (losses) on investments	-	7,659	7,659	-	(4,464)	(4,464)
Expenses						
Management fees	13,621	-	13,621	12,447	-	12,447
Other operating expenses	-	970	970	-	679	679
Shareholder services	-	832	832	-	822	822
Statements of Changes in Net Assets						
Share issue expenses	-	-	-	-	2,490	2,490

* Other related parties include Fédération des caisses Desjardins du Québec and its subsidiaries, namely Caisse centrale Desjardins, Capital Desjardins, Desjardins Securities, Desjardins Venture Capital L.P., Groupe Technologies Desjardins and Desjardins Trust. They also include Desjardins caisse network and the Desjardins Group Pension Plan.

Key management personnel compensation

CRCD's key management personnel are the members of the Board of Directors. For the six-month period ended June 30, 2016, compensation of key management personnel comprised solely short-term benefits in the amount of $237,633 (238,000 for the six-month period ended June 30, 2015).