Capital régional et coopératif Desjardins

Separate Financial Statements
June 30, 2019 and 2018
(in thousands of Canadian dollars)

Independent auditor's report

To the Shareholders of
Capital régional et coopératif Desjardins

Our opinion

In our opinion, the accompanying separate financial statements (the financial statements) present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins (CRCD) as at June 30, 2019 and December 31, 2018, and its financial performance and its cash flows for the six-month periods ended June 30, 2019 and 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

CRCD's separate financial statements comprise:

- the separate balance sheets as at June 30, 2019 and December 31, 2018;
- the separate statements of comprehensive income for the six-month periods ended June 30, 2019 and 2018;
- the separate statements of changes in net assets for the six-month periods ended June 30, 2019 and 2018;
- the separate statements of cash flows for the six-month periods ended June 30, 2019 and 2018; and
- The notes to financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of CRCD in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing CRCD's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
August 15, 2019

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

Separate Balance Sheets

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

	Notes	As at June 30, 2019 $	As at December 31, 2018 $
ASSETS			
Investments impacting the Québec economy	7	**1,146,806**	1,080,069
Other investments	8	**990,956**	1,028,968
Intangibles assets	10	**2,561**	1,023
Income taxes recoverable	19	**31,317**	26,477
Accounts receivable	11	**44,778**	45,981
Cash	12	**12,174**	12,428
		2,228,592	2,194,946
LIABILITIES			
Financial liabilities	13	**4,956**	4,726
Income taxes payables	19	**2,994**	15,097
Accounts payable	14	**8,591**	6,319
		16,541	26,142
NET ASSETS	16	**2,212,051**	2,168,804
NUMBER OF COMMON SHARES OUTSTANDING		**138,088,850**	141,391,214
NET ASSET VALUE PER COMMON SHARE		**16.02**	15.34

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

Sylvie Lalande, ASC,C.Dir, Director

Chantal Bélanger, FCPA, FCGA, Director

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

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)

	Notes	2019 $	2018 $
REVENUE			
Interest	7	**13,584**	11,715
Dividends and distributions		**10,498**	9,509
Administrative charges		**96**	103
		24,178	21,327
GAINS (LOSSES) ON INVESTMENTS			
Realized		**20,134**	5,855
Unrealized		**67,078**	68,449
		87,212	74,304
TOTAL REVENUE AND GAINS ON INVESTMENTS		**111,390**	95,631
EXPENSES			
Management fees		**9,701**	12,701
Other operating expenses	18	**2,752**	2,351
Shareholder services	18	**5,818**	2,313
		18,271	17,365
EARNINGS BEFORE INCOME TAXES		**93,119**	78,266
Income taxes	19	**(381)**	326
NET EARNINGS FOR THE PERIOD		**93,500**	77,940
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		**139,731,711**	136,300,656
NET EARNINGS PER COMMON SHARE		**0.67**	0.57

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

Separate Statements of Changes in Net Assets

For the six-month periods ended June 30

(in thousands of Canadian dollars)

	Share capital (note 16)						Retained earnings	Net assets
	"Issuance" Shares [1]		"Exchange" Shares [1]		Total			
	Number	$	Number	$	Number	$	$	$
BALANCE - DECEMBER 31, 2018	**141,391,214**	**1,577,431**	**-**	**-**	**141,391,214**	**1,577,431**	**591,373**	**2,168,804**
Net earnings for the period	**-**	**-**	**-**	**-**	**-**	**-**	**93,500**	**93,500**
Share capital transactions [2]								
Issuance of common shares	**24,792**	**363**	**-**	**-**	**24,792**	**363**	**-**	**363**
Redemption of common shares	**(3,327,156)**	**(34,314)**	**-**	**-**	**(3,327,156)**	**(34,314)**	**(16,302)**	**(50,616)**
Exchange of common shares	**(6,790,166)**	**(67,831)**	**6,790,166**	**99,612**	**-**	**31,781**	**(31,781)**	**-**
BALANCE - JUNE 30, 2019	**131,298,684**	**1,475,649**	**6,790,166**	**99,612**	**138,088,850**	**1,575,261**	**636,790**	**2,212,051**
BALANCE - DECEMBER 31, 2017	138,079,685	1,501,550	-	-	138,079,685	1,501,550	443,792	1,945,342
Net earnings for the period	-	-	-	-	-	-	77,940	77,940
Share capital transactions [2]								
Issuance of common shares	115,745	1,595	-	-	115,745	1,595	-	1,595
Share issue expenses, net of $20 in taxes	-	(27)	-	-	-	(27)	-	(27)
Redemption of common shares	(3,401,676)	(33,754)	-	-	(3,401,676)	(33,754)	(13,919)	(47,673)
BALANCE - JUNE 30, 2017	134,793,754	1,469,364	-	-	134,793,754	1,469,364	507,813	1,977,177

(1) Issuance shares refer to Class A “Issuance” common shares and Exchange shares refer to Class B “Exchange” common shares; collectively referred as common shares.

(2) 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.

Separate Statements of Cash Flows

For the six-month periods ended June 30

(in thousands of Canadian dollars)

	2019 $	2018 $
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings for the period	**93,500**	77,940
Non-cash items:		
Losses (gains) on investments	**(87,212)**	(74,304)
Amortization of premiums and discounts on other investments	**(593)**	(1,294)
Amortization of intangibles assets	**183**	-
Deferred taxes	**257**	746
Capitalized interest and other non-cash items	**(360)**	(279)
Changes in operating assets and liabilities:		
Income taxes recoverable	**(4,840)**	2,692
Income taxes payable	**(12,360)**	-
Accounts receivable	**586**	(6,115)
Accounts payable	**1,457**	(6,423)
Acquisition of investments impacting the Québec economy	**(83,936)**	(105,718)
Proceeds from disposals of investments impacting the Québec economy	**45,452**	78,558
Acquisition of other investments	**(425,570)**	(525,232)
Proceeds on disposal of other investments	**501,918**	601,743
	28,482	42,314
CASH FLOWS FROM (USED IN) INVESTING ACTIVTIES		
Acquisition of intangibles assets	**(1,721)**	(628)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITES		
Issuance of common shares	**363**	1,548
Redemption of common shares	**(50,616)**	(47,673)
	(50,253)	(46,125)
Net change in cash and cash equivalents during the period	**(23,492)**	(4,439)
Cash and cash equivalents – Beginning of period	**41,253**	29,438
CASH AND CASH EQUIVALENTS – END OF PERIOD	**17,761**	24,999
Supplemental information about cash flows from operating activites		
Interest received	**12,933**	10,046
Dividends and distributions received	**10,537**	7,818
Income taxes recovered (paid)	**(16,562)**	3,112

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

Notes to Separate Financial Statements

Note 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 Desjardins Group Relations director appointed by the other directors.

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.

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.

If one of these targets is not met, CRCD will be subject to a reduction of the authorized issue of capital for the capitalization period following the end of the fiscal year.

Note 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”). Certain prior period amounts have been reclassified to conform with the current period’s financial statement presentation. These financial statements were approved by the Board of Directors on August 15, 2019.

Basis of measurement

These financial statements have been prepared on a fair value basis, except with respect to cash, accounts receivable, accounts payable and taxes, which are measured at amortized cost and at cost as well as intangible assets which are measured at amortized 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.

Presentation and functional currency

These separate financial statements are expressed in Canadian dollars, which is also the functional currency of CRCD. Dollar amounts reported in the tables of the notes to the financial statements are in thousands of dollars, unless otherwise stated.

Note 3 – Significant accounting policies

a) 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.

Classification and measurement

Financial assets are classified according to their contractual cash flow characteristics as well as the economic model under which they are held.

Contractual cash flow characteristics

To satisfy the criteria related to the cash flow characteristics for classifying a financial asset, the cash flows related to this asset must consist solely of principal and interest payments on the principal amount outstanding. The principal generally represents the fair value of the financial asset at initial recognition. Interest consists primarily of consideration for the time value of money and credit risk associated with the principal outstanding over a given period.

Business model

CRCD's business models are determined in a manner that reflects how groups of financial assets are managed together to achieve a particular business objective. The business models represent how CRCD manages its financial assets to generate cash flows, that is, they reflect whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets, or both. CRCD's business models are outlined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is to collect contractual cash flows
- Held to collect contractual cash flows and for sale: The objective is achieved by collecting contractual cash flows and by selling financial assets
- Other business models: The objective is not consistent with any of the above business models.

The classification ans measurement of CRCD's financial assets and liabilities can be summarizied as follows :

Investments impacting the Québec economy, Other investments and amounts receivable on disposals of Investments impacting the Québec economy are classified as at fair value through profit or loss because they are held according to an economic model whose aim is to manage and measure investment performance on a fair value basis.

Cash and accounts receivable are measured at amortized cost, which approximates their fair value, since they are held under a business model whose objective is to collect contractual cash flows and they satisfy the criteria of the cash flow characteristics test, that is, they consist solely of payments of principal and interest.

Accounts payable are classified and measured at amortized cost which approximates their fair value, while notes payable and financial liabilities are designated at fair value through profit or loss. Financial liabilities are derecognized when the liability is extinguished, that is, when the obligation specified in the contract is discharged or cancelled, or expires.

b) 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.

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.

Global equities, Canadian equities, real estate funds and market neutral equity funds

Interests in global equity, Canadian equities, real estate funds and market neutral equity funds are recorded at their fair value. Fair value represents the net assets per unit as determined by the funds as 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.

Note

The note receivable is related to an investment impacting the Québec economy and is recognized at fair value, which is the amount that CRCD would receive on the reporting date under the contractual agreement underlying this note receivable.

Financial liabilities

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 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.

c) Intangible assets

IT development consists primarily of costs relating to the development of applications that can be used internally or to provide services to shareholders. Intangible assets are initially recognized at cost and subsequently measured at cost less any accumulated amortization and any impairment losses. These costs are capitalized when the application's development phase begins. The costs incurred prior to this phase are expensed.

Intangible assets are amortized over their estimated useful lives, using the following method and period:

	Method	**Period**
Intangible assets		
IT development	Straight-line	3 years

Amortization begins when intangible assets are available for use. The amortization method and the useful life are revised at least once per year. Changes are recognized prospectively similarly to changes in accounting estimates.

Impairment of assets

The carrying amount of intangible assets is reviewed at each reporting date to determine whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. For intangible assets that are not yet available for use, an annual impairment test is performed by comparing their carrying amount to their recoverable amount.

d) Cash and cash equivalents

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

e) Share capital

The common 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;
- 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).

On January 1, 2019, a new compensation agreement was entered into with the Desjardins caisse network. Under this new agreement, share issuance costs which were based on the value of the shares issued and reported in the Separate Statements of Changes in Net Assets were eliminated and new distribution costs were introduced. These new distribution costs, which now cover all advisory services provided to shareholders, are reported as expenses in the Separate Statements of Comprehensive Income.

f) Revenue recognition

Interest

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 and distributions

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

Distributions are recognized when they are declared by the funds in the other investments portfolio.

Administration 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 year.

g) 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 Separate 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 Separate 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.

h) Taxes

The income tax expense comprises current taxes and deferred taxes. Income taxes are recognized in the Separate Statements of Comprehensive Income, unless they relate to items that were recognized outside earnings directly in the Separate 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).

i) 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.

Note 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 separate 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’s role, whose members consist mainly of independent qualified valuators, 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. In addition, the Audit and Risk Management Committee monitors operational risk related to non-compliance with the portfolio valuation methodology and informs the Portfolio Valuation Committee in case of non-conformity.

Note 5 – Accounting standards issued but not yet adopted

No accounting standards issued by the IASB and not yet effective as at June 30, 2019 could have a material impact on CRCD’s financial statements.

Note 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 separate financial statements.

Note 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 www.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, 2019		
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Unsecured			
Common shares	**256,223**	**137,876**	**394,099**
Preferred shares	**280,918**	**57,766**	**338,684**
Fund units	**229,472**	**66,518**	**295,990**
Loans and advances	**102,960**	**618**	**103,578**
Note [1]	**2,111**	**298**	**2,409**
Secured			
Loans and advances	**12,401**	**(355)**	**12,046**
	884,085	**262,721**	**1,146,806**

	As at December 31, 2018		
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Unsecured			
Common shares	259,388	119,218	378,606
Preferred shares	259,039	58,478	317,517
Fund units	209,690	64,152	273,842
Loans and advances	94,634	278	94,912
Note [1]	1,787	(91)	1,696
Secured			
Loans and advances	13,720	(224)	13,496
	838,258	241,811	1,080,069

[1] On September 28, 2017, CRCD made a commitment to invest, in the form of a note, a maximum amount of $5.0 million in the Desjardins-Innovatech S.E.C. fund (DI) which will use the amount to make an investment impacting the Québec economy. This note contains a clause under which the amount receivable by CRCD will be equal to the fair value of the investment made by DI. The entire proceeds received by DI upon a partial or full disposal of the investment will be paid to CRCD and deducted from the note receivable.

Investments impacting the Québec economy include investments valued at fair value in U.S. dollars for an amount of $41.1 million ($40.1 million as at December 31, 2018) and in euros for an amount of $6.7 million ($5.4 million as at December 31, 2018).

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 8.7% (8.8% as at December 31, 2018). The interest rate is fixed for substantially all interest-bearing loans and advances. For the period ended June 30, 2019, interest income recognized at the contractual rate amounted to $4.9 million ($5.2 million for the period ended June 30, 2018). Substantially all of the change in the fair value of loans and advances resulted from changes in credit risk and to a lesser extent, changes in the rates charged on these types of products.

Loans and advances have an annual residual maturity of 3.7 years (2.8 years as at December 31, 2018) and the fair market value of the current portion maturing in less than one year is $32.0 million ($19.0 million as at December 31, 2018).

Allocation of investments and funds committed by segment

Investments and funds committed are allocated by segment as follows:

	As at June 30, 2019				
Segment	**Investments at cost $**	**Unrealized gain (loss) $**	**Fair value $**	**Funds comitted but not disbursed[1] $**	**Total commitment $**
Manufacturing	**472,381**	**83,388**	**555,769**	**1,700**	**557,469**
Services	**160,152**	**116,331**	**276,483**	**1,900**	**278,383**
Technological innovations	**19,969**	**(3,814)**	**16,155**	**400**	**16,555**
Funds	**231,583**	**66,816**	**298,399**	**153,890**	**452,289**
Total	**884,085**	**262,721**	**1,146,806**	**157,890**	**1,304,696**

	As at December 31, 2018				
Segment	**Investments at cost $**	**Unrealized gain (loss) $**	**Fair value $**	**Funds comitted but not disbursed[1] $**	**Total commitment $**
Manufacturing	473,564	63,683	537,247	2,648	539,895
Services	138,167	117,835	256,002	200	256,202
Technological innovations	15,050	(3,768)	11,282	-	11,282
Funds	211,477	64,061	275,538	189,321	464,859
Total	838,258	241,811	1,080,069	192,169	1,272,238

[1] Funds committed but not disbursed are not included in 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:

2019 (6 months) $	2020 $	2021 $	2022 $	2023 and thereafter $	Total $
40,672	26,408	27,071	18,570	45,169	157,890

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, 2019		As at December 31, 2018	
	Number	Fair value $	Number	Fair value $
Subsidiaries				
Partner companies	**8**	**218,447**	9	224,056
Associates				
Partner companies	**27**	**321,453**	26	317,697
Funds	**10**	**274,907**	10	254,324

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

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 2% and 45% (9% and 45% as at December 31, 2018) for associates. As at June 30, 2019 and December 31, 2018, the voting rights are equivalent to the proportion of interests held except for two subsidiaries and an associate. During the periods ended June 30, 2019 and 2018, CRCD did not receive any significant dividend from a subsidiary.

As at June 30, 2019 and December 31, 2018, the interests in the funds were made up of units and the holding percentage varied from 13% to 95%.

Note 8 – Other investments

The Unaudited Statement of Other Investments is available on written request to CRCD's head office or on our website at www.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, 2019		
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Bonds			
Federal or guaranteed	**272,064**	**7,507**	**279,571**
Provincial, municipal or guaranteed	**157,907**	**8,109**	**166,016**
Financial institutions	**85,011**	**3,744**	**88,755**
Companies	**64,920**	**3,326**	**68,246**
	579,902	**22,686**	**602,588**
Money market instruments(1)	**20,552**	**-**	**20,552**
Foreign exchange contracts(2)	**-**	**114**	**114**
Canadian equity funds	**65,498**	**8,466**	**73,964**
Global equity funds	**152,351**	**10,639**	**162,990**
Real estate funds	**95,587**	**4,601**	**100,188**
Market neutral equity funds	**30,130**	**430**	**30,560**
Total	**944,020**	**46,936**	**990,956**

	As at December 31, 2018		
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Bonds			
Federal or guaranteed	286,256	1,733	287,989
Provincial, municipal or guaranteed	219,669	1,814	221,483
Financial institutions	82,312	(55)	82,257
Companies	50,353	(127)	50,226
	638,590	3,365	641,955
Money market instruments(1)	51,166	-	51,166
Foreign exchange contracts(2)	-	(67)	(67)
Canadian equity funds	93,188	(2,992)	90,196
Global equity funds	151,930	(2,640)	149,290
Real estate funds	93,326	3,102	96,428
Total	1,028,200	768	1,028,968

Breakdown of bonds by maturity date

	As at June 30, 2019			
	Under 1 year $	1 to 5 years $	Over 5 years $	Total $
Cost	**6,363**	**46,443**	**527,096**	**579,902**
Par value	**6,360**	**46,621**	**537,554**	**590,535**
Fair value	**6,365**	**47,200**	**549,023**	**602,588**
Average nominal rate[3]	**2.03%**	**2.20%**	**2.31%**	**2.30%**
Average effective rate	**1.90%**	**2.32%**	**2.61%**	**2.58%**

	As at December 31, 2018			
	Under 1 year $	1 to 5 years $	Over 5 years $	Total $
Cost	**3,561**	**30,337**	**604,692**	**638,590**
Par value	**3,560**	**30,599**	**614,673**	**648,832**
Fair value	**3,562**	**30,279**	**608,114**	**641,955**
Average nominal rate[3]	**2.41%**	**2.44%**	**2.48%**	**2.48%**
Average effective rate	**2.37%**	**2.85%**	**2.69%**	**2.69%**

(1) As at June 30, 2019, money market instruments consisted of Treasury bills, commercial paper, bankers' acceptances and bearer deposit notes, compared with Treasury bills, term deposits, commercial paper and bankers' acceptances as at December 31, 2018.

(2) Foreign exchange contracts to sell US$60.6 million (US$53.1 million as at December 31, 2018) and €4.5 million (€3.6 million as at December 31, 2018) have three-month maturities.

(3) Substantially all bonds bear are fixed-interest rate issues.

Other investments include investments which represent foreign currency exposure with a fair value of $167.7 million ($137.4 million as at December 31, 2018).

As at June 30, 2019, other investments did not include funds committed but not disbursed.

Note 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, 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Investments impacting the Québec economy	**6,748**	**15,246**	**1,124,812**	**1,146,806**
Other investments	**709,985**	**180,783**	**100,188**	**990,956**
Amounts receivable on disposal of investments impacting the Québec economy	**-**	**-**	**36,308**	**36,308**
Total financial assets	**716,733**	**196,029**	**1,261,308**	**2,174,070**
Financial liabilities	**-**	**-**	**4,956**	**4,956**

	As at December 31, 2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Investments impacting the Québec economy	331	18,070	1,061,668	1,080,069
Other investments	758,973	173,567	96,428	1,028,968
Amounts receivable on disposal of investments impacting the Québec economy	-	-	36,925	36,925
Total financial assets	759,304	191,637	1,195,021	2,145,962
Financial liabilities	-	-	4,726	4,726

Transfers between hierarchy levels of financial instruments measured at fair value are made at the reporting date. One transfer between hierarchy levels took place during the six-month period ended June 30, 2019 (one transfer during the year ended December 31, 2018).

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, 2019			
	Investments impacting the Québec economy $	Other investments $	Amounts receivable on disposal of investments impacting the Québec economy $	Financial liabilities $
Fair value as at December 31, 2018	**1,061,668**	**96,428**	**36,925**	**(4,726)**
Realized gains (losses)	**6,366**	**-**	**1,543**	**(230)**
Unrealized gains (losses)	**17,468**	**1,499**	**-**	**-**
Acquisitions/issuances	**87,933**	**2,261**	**-**	**-**
Disposals/repayments	**(48,623)**	**-**	**(2,160)**	**-**
Fair value as at June 30, 2019	**1,124,812**	**100,188**	**36,308**	**(4,956)**
Unrealized gains (losses) in comprehensive income on investments and financial liabilites as at June 30, 2019	**14,911**	**1,499**	**-**	**-**

	For the six-month period ended June 30, 2018			
	Investments impacting the Québec economy $	Other investments $	Amounts receivable on disposal of investments impacting the Québec economy $	Financial liabilities $
Fair value as at December 31, 2017	1,033,687	88,845	14,943	(23,413)
Realized gains (losses)	24,850	-	3,246	(7,504)
Unrealized gains (losses)	54,593	1,446	-	7,270
Acquisitions/issuances	105,847	2,223	4,218	-
Disposals/repayments	(104,495)	-	(1,228)	19,701
Fair value as at June 30, 2018	1,114,482	92,514	21,179	(3,946)
Unrealized gains (losses) in comprehensive income on investments and notes payable and financial liabilities as at June 30, 2018	76,345	1,446	-	-

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

	As at June 30, 2019			
	Fair value $	Main valuation techniques	Unobservable inputs	Input value range (weighted average)
Investments impacting the Québec economy				
Loans and advances	**47,957**	Discounted cash flows	Required return	7.3% to 11.2% (8.1%)
Non-participating shares	**198,161**	Discounted cash flows	Required return	4.0% to 13.2% (5.5%)
Participating controlling shares	**181,299**	Capitalized cash flows	Capitalization rate	9.0% to 12.4% (10.7%)
			% of representative cash flows(1)	7.2% to 26.9% (11.9%)
	37,147	Restated net assets	Entity's net assets	(2)
Participating non-controlling shares	**194,616**	Capitalized cash flows	Capitalization rate	7.9% to 21.6% (10.1%)
			% of representative cash flows(1)	6.6% to 44.9% (15.9%)
	91,057	Recent transactions and bids	Paid/bid price	-
	59,510	Restated net assets	Entity's net assets	(2)
	16,666	Other(3)	-	-
Note	**2,409**	Restated net assets	Fund's net assets	(4)
Fund units	**295,990**	Restated net assets	Fund's net assets	(2)
	1,124,812			
Other investments – Real estate fund	**100,188**	Restated net assets	Fund's net assets	(2)
Amounts receivable on disposal of investments impacting the Québec economy	**36,308**	Discounted cash flows	Required return	0.5% to 10.0% (6.3%)
Financial liabilities	**(4,956)**	Miscellaneous	-	

	As at December 31, 2018			
	Fair value $	**Main valuation techniques**	**Unobservable inputs**	**Input value range (weighted average)**
Investments impacting the Québec economy				
Loans and advances	35,025	Discounted cash flows	Required return	6.7% to 16.0% (9.0%)
Non-participating shares	172,649	Discounted cash flows	Required return	4.5% to 13.0% (6.1%)
Participating controlling shares	147,662	Capitalized cash flows	Capitalization rate	8.7% to 12.5% (9.3%)
			% of representative cash flows(1)	7.9% to 27.8% (11.1%)
	52,821	Recent transactions and bids	Paid/bid price	-
	34,559	Restated net assets	Entity's net assets	(2)
Participating non-controlling shares	174,067	Capitalized cash flows	Capitalization rate	7.9% to 21.6% (11.1%)
			% of representative cash flows(1)	6.6% to 49.3% (15.9%)
	96,912	Recent transactions and bids	Paid/bid price	-
	66,234	Restated net assets	Entity's net assets	(2)
	6,201	Other(3)	-	-
Note	1,696	Restated net assets	Fund's net assets	(4)
Fund units	273,842	Restated net assets	Fund's net assets	(2)
	1,061,668			
Other investments – Real estate fund	96,428	Restated net assets	Fund's net assets	(2)
Amounts receivable on disposal of investments impacting the Québec economy	36,925	Discounted cash flows	Required return	0.5% to 9.0% (5.7%)
Financial liabilities	(4,726)	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.

(4) The note receivable is related to an investment impacting the Québec economy in a fund.

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.

Sensitivity of fair value to unobservable inputs

Although CRCD considers that fair value estimates made for the separate 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, 2019 $	**As at December 31, 2018 $**
Participating controlling shares	**+/- 0.2 %**	+/- 0.2 %
Participating non-controlling shares	**+/- 0.3 %**	+/- 0.3 %

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.

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.

Note 10 – Intangible assets

	IT development ($)
Cost	
As at December 31, 2017	-
Acquisition	1,096
As at December 31, 2018	1,096
Acquisition	**1,721**
As at June 30, 2019	**2,817**
Accumulated depreciation	
As at December 31, 2017	-
Depreciation	(73)
As at December 31, 2018	(73)
Depreciation	**(183)**
As at June 30, 2019	**(256)**
Net carrying amount	
As at June 30, 2019	**2,561**
As at December 31, 2018	1,023

Note 11 – Accounts receivable

	As at June 30, 2019 $	As at December 31, 2018 $
Interest, dividends and distributions receivable on investments	**8,144**	8,033
Amounts receivable on disposal of investments impacting the Québec economy	**36,308**	36,925
Other	**326**	1,023
	44,778	45,981

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 $32.6 million ($30.5 million as at December 31, 2018).

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 $25.5 million ($26.2 million as at December 31, 2018) no later than 12 months after the reporting date.

Note 12 – Cash and cash equivalents

	As at June 30, 2019 $	As at December 31, 2018 $
Cash	**12,174**	12,428
Money market instruments	**5,587**	28,825
	17,761	41,253

Note 13 – Financial liabilities

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, 2019, financial liabilities with a fair value of $5.0 million were related to investments impacting the Québec economy measured in U.S. dollars ($4.7 million as at December 31, 2018).

The payment of 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 financial liabilities. However, as payment typically follows receipts, liquidity risk is low.

Note 14 – Accounts payable

	As at June 30, 2019 $	As at December 31, 2018 $
Trade payables and accrued liablities	**4,730**	6,282
Amounts payable on acquisitions of other investments	**1,119**	-
Other	**2,742**	37
	8,591	6,319

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

Note 15 – Line of credit

CRCD has an authorized line of credit of $50 million with Fédération des caisses Desjardins du Québec (FCDQ), bearing interest at the operating credit rate of FCDQ 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, 2019 and December 31, 2018, the line of credit was undrawn and was not used in the first semester of 2019, nor in the 2018 fiscal year.

Note 16 – Share capital

Autorized

CRCD is authorized to issue Class A "Issuance" and Class B "Exchange" 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.

Despite the provisions of the Act in respect of the capitalization of CRCD, the Minister of Finance of Québec in his *Budget Speech* of March 27, 2018 authorized CRCD to raise an annual maximum of $140 million as Class A "Issuance" shares for each of its capitalization periods between March 1, 2018 and February 28, 2021, compared with an annual maximum of $135 million for the capitalization periods between March 1, 2016 and February 28, 2018.

In that same budget, the Minister of Finance also authorized CRCD to exchange Class A "Issuance" shares held for at least seven years for Class B "Exchange" shares up to an annual maximum of $100 million for each of its capitalization periods between March 1, 2018 and February 28, 2021.

Each capitalization period, which lasts 12 months, begins on March 1 of each year.

Issued

The net assets of CRCD as at June 30, 2019 totalled $2,212.1 million broken down by issue as follows:

	*Balance $M			
Issue	**"Issuance" Shares**	**"Exchange" Shares**	**Total**	**Eligible for redemption**
2001 to 2012	1,139.1	-	1,139.1	Today
2013	206.9	-	206.9	2020
2014	83.9	-	83.9	2021
2015	197.7	-	197.7	2022
2016	166.5	-	166.5	2023
2017	156.5	-	156.5	2024
2018	152.7	108.8	261.5	2025
Net assets	**2,103.3**	**108.8**	**2,212.1**	

* Calculated as net asset value per share as at June 30, 2019.

Note 17 – 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 16.

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.

Note 18 – Expenses

	For the six-month periods ended June 30,	
	2019 **$**	**2018** **$**
Other operating expenses		
IT expenses	**1,468**	1,295
Professional services fees	**454**	427
Compensation of members of the Board of Directors and its committees	**306**	311
Audit fees	**93**	93
Custodial and trustee fees	**84**	59
Marketing	**238**	114
Other expenses	**109**	52
	2,752	2,351
Shareholder services		
Trustee fees (registration)	**1,114**	880
Reporting to shareholders	**276**	165
Share distribution fees	**2,614**	165
IT expenses	**1,606**	1,005
Other expenses	**208**	98
	5,818	2,313

Note 19 – Income taxes

Income tax expense (recovery)

Income tax expense is detailed as follows:

	For the six-month periods ended June 30,			
	2019		2018	
	Statement of Comprehensive Income $	Statement of Changes in Net Assets $	Statement of Comprehensive Income $	Statement of Changes in Net Assets $
Current (recovered)	**(638)**	**-**	(420)	(428)
Deferred	**257**	**-**	746	408
	(381)	**-**	326	(20)

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,	
	2019 $	2018 $
Income taxes at the combined basic tax rate of 39.6% (39.7% in 2018)	**36,875**	31,072
Permanent differences between earnings before income taxes and taxable income and other items		
Realized and unrealized losses (gains) on investments	**(34,180)**	(27,259)
Non-taxable dividends	**(3,318)**	(2,886)
Other	**242**	(601)
	(381)	326

Income tax balance

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

	As at June 30, 2019 $	**Au at December 31, 2018 $**
Assets		
Refundable tax on hand	**24,858**	26,477
Income taxes recoverable	**6,459**	-
	31,317	26,477
Liabilities		
Deferred taxes – Share issue expenses	**2,363**	2,902
Deferred taxes – Other	**(5,357)**	(5,639)
Income taxes payable	**-**	(12,360)
	(2,994)	(15,097)

CRCD expects to recover $9.0 million ($3.5 million as at December 31, 2018) in income taxes no later than 12 months after the reporting date.

Note 20 – Related party transactions

Related parties include Desjardins Capital Management Inc. (DC), CRCD's manager, which is a subsidiary of FCDQ 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 DC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The current management agreement with a three-year term is in effect as of January 1, 2018. Under this agreement, management fees amount to a maximum rate of 1.75% (1.95% for the fiscal year ended December 31, 2018) 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. DC and CRCD have agreed that, for a given fiscal year, an adjustment could also be made to allow CRCD to benefit from economies of scale realized by DC with regard to the growth in CRCD's assets and the increase in the balance of CRCD shares eligible for redemption over the last few years. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD.

- CRCD has appointed Desjardins Trust Inc. as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. This agreement is effective from July 1, 2016 until December 31, 2020.

- CRCD has entrusted Desjardins Trust Inc. with custody services for its assets. The custody and administration agreement came into effect on May 1, 2009 and will remain in force until December 31, 2020.

- CRCD has appointed FCDQ to oversee the distribution of its shares through the Desjardins caisse network. This agreement is effective from July 1, 2016 until December 31, 2020. CRCD also agreed to pay, as needed, project fees to cover the work required to upgrade the tools and applications supporting the CRCD share distribution processes.

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

- CRCD has entrusted FCDQ with the banking operations related to its day-to-day activities and its role as counterparty in 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 Desjardins Technology Group Inc. with its IT development strategy (IT master plan), particularly the implementation and upgrading of a new investment management software.

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, 2019			As at December 31, 2018		
	DC $	Other related parties[1] $	Total $	DC $	Other related parties[1] $	Total $
Balance Sheets						
Assets						
Other investments	**-**	**100**	**100**	-	12,947	12,947
Intangible assets	**-**	**2,561**	**2,561**	-	1,023	1,023
Accounts receivables	**-**	**-**	**-**	827	-	827
Cash	**-**	**12,534**	**12,534**	-	12,482	12,482
Liabilities						
Accounts payable	**2,713**	**4,158**	**6,871**	-	4,859	4,859

	For the six-month periods ended June 30,					
	2019			2018		
	DC $	Other related parties [1] $	Total $	DC $	Other related parties [1] $	Total $
Statements of Comprehensive Income						
Revenue						
Interest	**-**	**6**	**6**	-	66	66
Gains (losses) on investments	**-**	**2,993**	**2,993**	-	3,484	3,484
Expenses						
Management fees	**9,701**	**-**	**9,701**	12,701	-	12,701
Other operating expenses	**-**	**1,358**	**1,358**	-	1,216	1,216
Shareholder services	**-**	**5,334**	**5,334**	-	2,050	2,050
Statements of Changes in Net Assets						
Share issue expenses	**-**	**-**	**-**	-	45	45

[1] Other related parties include FCDQ and its subsidiaries, namely, Desjardins Securities, Desjardins Venture Capital L.P., Desjardins Technology Group Inc, Desjardins Trust and Desjardins Investment. They also include Desjardins caisse network.

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, 2019, compensation of key management personnel comprised solely short-term benefits in the amount of $253,000 ($235,000 for the six-month period ended June 30, 2018).