Capital régional et coopératif Desjardins

Separate Financial Statements
December 31, 2018 et 2017
(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 ("financial statements") present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins (the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited:

The Company's separate financial statements comprise:

- the separate balance sheets as at December 31, 2018 and 2017;
- the separate statements of comprehensive income for the years then ended;
- the separate statements of changes in net assets for the years then ended;
- the separate statements of cash flows for the years then ended; 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 the Company 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.

Other information

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

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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 the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 the Company'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 the Company'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 the Company 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
February 14, 2019

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

Capital régional et coopératif Desjardins

Separate Balance Sheets

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

	Note	As at December 31, 2018 $	As at December 31, 2017 $
Assets			
Investments impacting the Québec economy	7	1,080,069	1,033,951
Other investments	8	1,028,968	878,482
Intangibles assets	10	1,023	-
Income taxes recoverable	19	26,477	19,624
Accounts receivable	11	45,981	36,069
Cash	12	12,428	12,305
		2,194,946	1,980,431
Liabilities			
Notes payable and financial liabilities	13	4,726	23,413
Income taxes payables	19	15,097	232
Accounts payable	14	6,319	11,444
		26,142	35,089
Net assets	16	2,168,804	1,945,342
Number of common shares outstanding		141,391,214	138,079,685
Net asset value per common share		15.34	14.09

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.

Capital régional et coopératif Desjardins

Separate Statements of Comprehensive Income

For the years ended December 31

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

	Note	2018 $	2017 $
Revenue			
Interest	7	25,886	23,228
Dividends and distributions		43,929	27,645
Administrative charges		470	519
		70,285	51,392
Gains (losses) on investments			
Realized		108,335	8,480
Unrealized		30,297	88,061
		138,632	96,541
Total revenue and gains on investments		208,917	147,933
Expenses			
Management fees		18,908	23,865
Other operating expenses	18	4,732	5,046
Shareholder services	18	6,305	3,363
		29,945	32,274
Earnings before income taxes		178,972	115,659
Income taxes	19	4,078	2,902
Net earnings for the year		174,894	112,757
Weighted average number of common shares		136,894,655	133,493,165
Net earnings per common share		1.28	0.84

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

Capital régional et coopératif Desjardins

Separate Statements of Changes in Net Assets

For the years ended December 31

(in thousands of Canadian dollars)

	Share capital (note 16)		Retained earnings	Net assets
	Number	$	$	$
Balance – December 31, 2017	138,079,685	1,501,550	443,792	1,945,342
Net earnings for the year	-	-	174,894	174,894
Share capital transactions[1]				
Issuance of common shares	9,630,654	141,179	-	141,179
Share issue expenses, net of $1,657 in taxes	-	(2,523)	-	(2,523)
Redemption of common shares	(6,319,125)	(62,775)	(27,313)	(90,088)
Balance – December 31, 2018	141,391,214	1,577,431	591,373	2,168,804
Balance – December 31, 2016	134,943,941	1,434,668	354,749	1,789,417
Net earnings for the year	-	-	112,757	112,757
Share capital transactions[1]				
Issuance of common shares	9,792,823	134,850	-	134,850
Share issue expenses, net of $1,578 in taxes	-	(2,396)	-	(2,396)
Redemption of common shares	(6,657,079)	(65,572)	(23,714)	(89,286)
Balance – December 31, 2017	138,079,685	1,501,550	443,792	1,945,342

(1) 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 Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)

	2018 $	2017 $
Cash flows from (used in) operating activities		
Net earnings for the year	174,894	112,757
Non-cash items:		
Losses (gains) on investments	(138,632)	(96,541)
Amortization of premiums and discounts on other investments	(3,773)	(2,629)
Amortization of intangibles assets	73	-
Deferred taxes	2,977	1,180
Capitalized interest and other non-cash items	(1,095)	(2,629)
Changes in operating assets and liabilities:		
Income taxes recoverable	(5,668)	640
Income taxes payable	12,360	-
Accounts receivable	12,070	(13,181)
Accounts payable	(4,645)	4,011
Acquisitions of investments impacting the Québec economy	(176,400)	(173,264)
Proceeds from disposals of investments impacting the Québec economy	257,112	153,278
Acquisitions of other investments	(1,557,623)	(716,918)
Proceeds on disposal of other investments	1,394,350	700,647
	(34,000)	(32,649)
Cash flows from (used in) investing activities		
Acquisitions of intangibles assets	(1,096)	-
Cash flows from (used in) financing activities		
Issuance of common shares	136,999	132,256
Redemption of common shares	(90,088)	(89,286)
	46,911	42,970
Net change in cash and cash equivalents during the year	11,815	10,321
Cash and cash equivalents – Beginning of year	29,438	19,117
Cash and cash equivalents – End of year	41,253	29,438

Supplemental information about cash flows from operating activities

Interest received	19,651	18,198
Dividends and distributions received	43,715	27,503
Income taxes recovered (paid)	5,591	1,082

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.

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.

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

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 February 14, 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.

3 Significant accounting policies

Changes in accounting policies

On January 1, 2018, CRCD adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, retrospectively, without restatement of comparative periods. IFRS 7, *Financial Instruments: Disclosures*, was also amended to reflect the differences between IFRS 9 and IAS 39. Accordingly, the information for fiscal 2017 is reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and IAS 18, *Revenue*.

IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, introduces new requirements relating to the classification and measurement of financial assets and liabilities, the impairment of financial instruments, as well as requirements for hedge accounting. CRCD does not apply hedge accounting.

Regarding the classification and measurement of financial assets and liabilities, the adoption of IFRS 9 had no impact on CRCD’s balance sheet as at January 1, 2018. The financial assets designated at fair value through profit or loss in accordance with IAS 39 are now classified as at fair value through profit or loss in accordance with IFRS 9 while those included in loans and receivables and measured at

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amortized cost under IAS 39 continued to be measured at amortized cost under IFRS 9. The adoption of IFRS 9 had no impact on the classification and measurement of financial assets and liabilities.

The IFRS 9 impairment model applies to financial assets, loan commitments and financial guarantee contracts, except for financial instruments at fair value through profit or loss and those designated at fair value through other comprehensive income. Since CRCD's financial instruments are mostly at fair value through profit or loss, the adoption of this new impairment model had no impact on CRCD's balance sheet as at January 1, 2008.

IFRS 15 introduces a single, comprehensive revenue recognition model for all contracts with customers other than those within the scope of other standards, such as financial instruments, insurance contracts and leases. The core principle of this standard is that revenue recognition should depict the transfer of the control of goods or services in an amount that reflects the consideration received or expected to be received in exchange for such goods or services. The adoption of IFRS 15 had no impact on CRCD's balance sheet and statement of comprehensive income.

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.

Classification and measurement

Under IFRS 9, 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

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- Other business models: The objective is not consistent with any of the above business models.

The classification and measurement of CRCD's financial assets and liabilities under IFRS 9 and IAS 39 can be summarized as follows.

Under IFRS 9, 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. Under IAS 39, they were designated at fair value through profit or loss.

Cash and accounts receivable are measured at amortized cost, which approximates their fair value, according to IFRS 9, 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. Under IAS 39, these financial assets were classified in loans and receivables and measured at amortized cost, which approximates their fair value.

Under IFRS 9 and IAS 39, 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.

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.

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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 and real estate funds

Interests in global equity, Canadian equities and real estate 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.

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.

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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.

Intangibles 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.

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;

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

- 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).

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

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.

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 year.

(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 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.

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).

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 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, 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.

5 Accounting standards issued but not yet adopted

No accounting standards issued by the IASB and not yet effective as at 31 December 2018 could have a material impact on CRCD's financial statements.

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.

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

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 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

	As at December 31, 2017		
	Cost $	Unrealized gain (loss) $	Fair value $
Unsecured			
Common shares	289,722	106,253	395,975
Preferred shares	240,059	45,611	285,670
Fund units	187,192	53,351	240,543
Loans and advances	107,225	1,087	108,312
Note (1)	1,020	-	1,020
Secured			
Loans and advances	3,037	(606)	2,431
	828,255	205,696	1,033,951

(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.

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

Investments impacting the Québec economy include investments valued at fair value in U.S. dollars for an amount of C$40.1 million (C$77.1 million as at December 31, 2017) and in euros for an amount of $5.4 million (nil as at December 31, 2017).

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 8,8 % (9.9% as at December 31, 2017). The interest rate is fixed for substantially all interest-bearing loans and advances. For the period ended December 31, 2018, interest income recognized at the contractual rate amounted to $10.5 million ($11.9 million for the year ended December 31, 2017). Substantially all of the change in the fair value of loans and advances resulted from changes in credit risk and and to a lesser extent, changes in the rates charged on these types of products.

Loans and advances have an annual residual maturity of 2,8 years (3.3 years as at December 31, 2017) and the fair market value of the current portion is $19,0 million ($21.6 million as at December 31, 2017).

Allocation of investments and funds committed by segment

Investments and funds committed are allocated by segment as follows:

					As at December 31, 2018
Segment	**Investments at cost $**	**Unrealized gain (loss) $**	**Fair value $**	**Funds committed 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

					As at December 31, 2017
Segment	**Investments at cost $**	**Unrealized gain (loss) $**	**Fair value $**	**Funds committed but not disbursed[(1)] $**	**Total commitment $**
Manufacturing	440,207	86,777	526,984	15,000	541,984
Services	179,720	78,860	258,580	4,925	263,505
Technological innovations	20,116	(13,292)	6,824	1,000	7,824
Funds	188,212	53,351	241,563	162,681	404,244
Total	828,255	205,696	1,033,951	183,606	1,217,577

[(1)] Funds committed but not disbursed are not included in assets.

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

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 $	2020 $	2021 $	2021 $	2023 and thereafter $	Total $
79,899	31,352	26,927	28,252	25,739	192,169

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 December 31, 2018		As at December 31, 2017	
	Number	**Fair value $**	**Number**	**Fair value $**
Subsidiaries				
Partner companies	9	224,056	10	237,991
Associates				
Partner companies	27	302,173	27	288,316
Funds	10	254,324	7	220,460

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 9% and 45% (10% and 49% as at December 31, 2017) for associates. Except for a subsidiary and three associates as at December 31, 2018 (one subsidiary as at December 31, 2017), the voting rights are equivalent to the proportion of interests held. During the year ended December 31, 2018, CRCD acquired four associates and disposed of three associates and a subsidiary. Also, CRCD no longer exercises significant influence over an associate following a decrease in CRCD's interest. During fiscal 2018, CRCD received a significant dividend from a subsidiary in the amount of $14.6 million.

As at December 31, 2018, CRCD has invested as sponsor in three funds over which it exercises significant influence. As at December 31, 2018, the interests were made up of units and the holding percentage varied from 13% to 95% (20% to 95% as at December 31,2017).

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

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 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 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%

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

	As at December 31, 2017		
	Cost $	**Unrealized gain (loss) $**	**Fair value $**
Bonds			
Federal or guaranteed	217,460	(2,987)	214,473
Provincial, municipal or guaranteed	158,878	(1,929)	156,949
Financial institutions	83,250	(873)	82,377
Companies	52,113	272	52,385
	511,701	(5,517)	506,184
Money market instruments(1)	33,938	-	33,938
Foreign exchange contracts(2)	-	1,465	1,465
Canadian equity funds	89,186	3,911	93,097
Global equity funds	143,995	10,958	154,953
Real estate funds	85,807	3,038	88,845
Total	864,627	13,855	878,482

Breakdown of bonds by maturity date

	As at December 31, 2017			
	Under 1 year $	**1 to 5 years $**	**Over 5 years $**	**Total $**
Cost	6,091	175,554	330,056	511,701
Par value	6,075	178,345	346,843	531,263
Fair value	6,104	173,783	326,297	506,184
Average nominal rate(3)	1.91 %	1.98 %	2.14 %	2.08 %
Average effective rate	2.00 %	2.05 %	2.28 %	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$53.1 million have three-month maturities (US$76.1 million as at December 31, 2017) and €3.6 million (nil as at December 31, 2017) have three-month maturities.

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

Other investments include investments which represent foreign currency exposure with a fair value of $137.4 million ($140.0 million as at December 31, 2017).

As at December 31, 2018, other investments did not include funds committed but not disbursed.

(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 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

				As at December 31, 2017
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Financial assets				
Investments impacting the Québec economy	264	-	1,033,687	1,033,951
Other investments	615,182	174,455	88,845	878,482
Amounts receivable on disposal of investments impacting the Québec economy	-	-	14,943	14,943
Total financial assets	615,446	174,455	1,137,475	1,927,376
Financial liabilities				
Notes payable and financial liabilities	-	-	23,413	23,413

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 year ended December 31, 2018 (nil transfers during the year ended December 31, 2017).

(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:

	As at December 31, 2018			
	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, 2017	1,033,687	88,845	14,943	(23,413)
Realized gains (losses)	131,086	3,126	7,395	(8,323)
Unrealized gains (losses)	41,303	63	-	7,270
Acquisitions/issuances	175,636	48,894	16,564	-
Disposals/repayments	(305,334)	(44,500)	(1,977)	19,740
Transfers between levels	(14,710)	-	-	-
Fair value as at December 31, 2018	1,061,668	96,428	36,925	(4,726)
Unrealized gains (losses) in comprehensive income on investments and notes payable and financial liabilities as at December 31, 2018	82,642	1,516	-	(1,536)

	As at December 31, 2017			
	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, 2016	920,942	64,118	27,469	(25,233)
Realized gains (losses)	18,432	-	291	(119)
Unrealized gains (losses)	61,064	1,495	-	(333)
Acquisitions/issuances	176,154	23,232	179	-
Disposals/repayments	(142,905)	-	(12,996)	2,272
Fair value as at December 31, 2017	1,033,687	88,845	14,943	(23,413)
Unrealized gains (losses) in comprehensive income on investments and notes payable and financial liabilities as at December 31, 2017	74,816	1,495	-	(256)

(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 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	-	-

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

	As at December 31, 2017			
	Fair value $	**Main valuation techniques**	**Unobservable inputs**	**Input value range (weighted average)**
Investments impacting the Québec economy				
Loans and advances	32,201	Discounted cash flows	Required return	6.8% to 17.1% (8.8%)
Non-participating shares	155,232	Discounted cash flows	Required return	4.4% to 12.1% (5.2%)
Participating controlling shares	201,031	Capitalized cash flows	Capitalization rate	7.7% to 9.6% (8.6%)
			% of representative cash flows(1)	7.5% to 26.2% (14.9%)
	13,150	Recent transactions and bids	Paid/bid price	-
	560	Restated net assets	Entity's net assets	-(2)
Participating non-controlling shares	139,426	Capitalized cash flows	Capitalization rate	7.1% to 20.5% (10.2%)
			% of representative cash flows(1)	3.1% to 38.7% (15.5%)
	186,685	Recent transactions and bids	Paid/bid price	-
	57,523	Restated net assets	Entity's net assets	-(2)
	6,316	Other(3)	-	-
Note	1,020	Restated net assets	Fund's net assets	-(4)
Fund units	240,543	Restated net assets	Fund's net assets	-(2)
	1,033,687			
Other investments – Real estate fund	88,845	Restated net assets	Fund's net assets	-(2)
Amounts receivable on disposal of investments impacting the Québec economy	14,943	Discounted cash flows	Required return	0.5% to 10.0% (7.9%)
Notes payable and financial liabilities	(23,413)	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.

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

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 December 31, 2018	**As at December 31, 2017**
Participating controlling shares	+/− 0.2%	+/− 0.3%
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.

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

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 Intangible assets

	IT development	
	As at December 31, 2018 $	As at December 31, 2017 $
Cost	1,096	-
Cumulated depreciation	(73)	-
Net accounting value	1,023	-
Period variation		
Beginning net accounting value	-	-
Acquisition	1,096	-
Depreciation	(73)	-
Ending net accounting value	1,023	-

11 Accounts receivable

	As at December 31, 2018 $	As at December 31, 2017 $
Interest, dividends and distributions receivable on investments	8,033	20,240
Amounts receivable on disposal of investments impacting the Québec economy	36,925	14,943
Others	1,023	886
	45,981	36,069

(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 $30.5 million ($13.6 million as at December 31, 2017).

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 $26.2 million ($32.6 million as at December 31, 2017) no later than 12 months after the reporting date.

12 Cash and cash equivalents

	As at December 31, 2018 $	**As at December 31, 2017 $**
Cash	12,428	12,305
Money market instruments	28,825	17,133
	41,253	29,438

13 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 ("FCDQ"), 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. During the year ended December 31, 2018, one note payable was paid for an amount of $ 1.2 million following the disposition of the underlying company. As at May 30, 2018, an agreement related to the final settlement of the securities underlying the notes payable has been signed between CRCD and DCR. The balance of the notes was therefore paid for a total amount of $ 18.5 million. As at December 31, 2018, there is no notes payable.

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 December 31, 2018, financial liabilities with a fair value of $4.7 million were related to investments impacting the Québec economy measured in U.S. dollars ($21.2 million as at December 31, 2017 including notes payable and financial liabilities).

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.

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

14 Accounts payable

	As at December 31, 2018 $	As at December 31, 2017 $
Trade payables and accrued liabilities	6,282	6,269
Other	37	5,175
	6,319	11,444

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

15 Line of credit

CRCD has an authorized line of credit of $50 million with 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 December 31, 2018 and 2017, the line of credit was undrawn and was not used during the year then ended.

16 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.

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 authorized CRCD 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. In the Budget Speech of March 27, 2018, a maximum amount of $140 million was authorized for each of the capitalization periods starting March 1, 2018, 2019 and 2020. The provincial tax credit granted by the Québec government for purchasing shares is set at 40% up to February 28, 2018 and 35% starting March 1, 2018.

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

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 period ended December 31, 2018, share issuance costs amounted to $2.5 million ($2.4 million for the year ended December 31, 2017).

Issued

The net assets of CRCD as at December 31, 2018 totalled $2,168.8 million broken down by issue as follows:

Issue	Balance* $M	Eligible for redemption
2001	29.2	2008
2002	80.4	2009
2003	40.7	2010
2004	50.6	2011
2005	56.0	2012
2006	54.4	2013
2007	75.5	2014
2008	123.6	2015
2009	159.0	2016
2010	175.4	2017
2011	194.9	2018
2012	205.7	2019
2013	198.3	2020
2014	80.4	2021
2015	189.4	2022
2016	159.5	2023
2017	149.9	2024
2018	145.9	2025
Net assets	2,168.8	

*Calculated as net asset value per share as at December 31, 2018. The grey section represents the balance of CRCD shares eligible for redemption as at December 31, 2018 amounting to $1,039.7 million.

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

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.

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;
- For purchases from March 1, 2016 to February 28, 2018: 40% tax credit; and
- For purchases from March 1, 2018: 35% 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.

In its budget of March 27, 2018, the provincial government announced new provisions concerning the possibility of taking advantage of a new tax credit for a shareholder who defers the redemption of eligible shares for seven years. The Québec government has authorized CRCD, for three years only, to exchange its current shares for new shares in a maximum annual amount of $100 million. These new provisions will allow CRCD shareholders who have never redeemed shares to exchange their current shares, up to a value of $15,000 annually, for a new class of shares that will also have a mandatory seven-year holding period, and benefit from a provincial tax credit of 10% of the exchanged amount. These provisions were implemented in fall 2018 and share exchange applications for the 2018 taxation year were accepted in February 2019.

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

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.

18 Expenses

	2018 $	2017 $
Other operating expenses		
IT expenses	2,205	2,991
Professional services fees	420	446
Compensation of members of the Board of Directors and its committees	618	673
Audit fees	186	187
Custodial and trustee fees	110	109
Marketing	890	182
Other expenses	303	458
	4,732	5,046
Shareholder services		
Trustee fees (registration)	2,112	1,827
Reporting to shareholders	442	583
Share distribution fees	393	783
IT expenses	2,950	-
Other expenses	408	170
	6,305	3,363

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

19 Income taxes

Income tax expense

Income tax expense is detailed as follows:

	2018		2017	
	Statement of Comprehensive Income $	**Statement of Changes in Net Assets $**	**Statement of Comprehensive Income $**	**Statement of Changes in Net Assets $**
Current	1,101	(1,185)	1,722	(1,087)
Deferred	2,977	(472)	1,180	(491)
	4,078	(1,657)	2,902	(1,578)

Reconciliation of the income tax rate

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

	2018 $	**2017 $**
Income taxes at the combined basic tax rate of 39.7% (39.8% in 2017)	71,052	46,032
Permanent differences between earnings before income taxes and taxable income and other items		
Realized and unrealized losses (gains) on investments	(54,906)	(35,416)
Non-taxable dividends	(11,515)	(7,576)
Other	(553)	(138)
	4,078	2,902

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

Income tax balance

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

	As at December 31, 2018 $	As at December 31, 2017 $
Assets		
Refundable tax on hand	26,477	14,277
Income taxes recoverable	-	5,347
	26,477	19,624
Liabilities		
Deferred taxes – Share issue expenses	2,902	2,430
Deferred taxes – Other	(5,639)	(2,662)
Income taxes payable	(12,360)	-
	(15,097)	(232)

CRCD expects to recover $3.5 million ($8.3 million recoverable as at December 31, 2017) in income taxes no later than 12 months after the reporting date.

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 and the agreement effective for the year ended December 31, 2017, management fees amount to a maximum rate of 1.95% 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. A downward adjustment of $14.3 million ($6.6 million for the year ended December 31, 2017) was made for the year ended December 31, 2018. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD.

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

- 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. Since CRCD began operations, Desjardins Trust has represented the largest component of CRCD's shareholder service expenses. 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 January 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.

- CRCD holds securities issued by FCDQ 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 December 31, 2018			As at December 31, 2017		
	DC $	Other related parties(1) $	Total $	DC $	Other related parties(1) $	Total $
Balance Sheets						
Assets						
Other investments	-	12,947	12,947	-	6,809	6,809
Interest and dividends receivable on investments	-	-	-	-	31	31
Intangible assets	-	1,023	1,023		-	-
Accounts receivables	827	-	827	-	821	821
Cash	-	12,482	12,482	-	12,506	12,506
Liabilities						
Notes payable and financial liabilities	-	-	-	-	20,183	20,183
Accounts payable	-	4,859	4,859	5,175	4,461	9,636

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

	2018			2017		
	DC $	Other related parties[1] $	Total $	DC $	Other related parties[1] $	Total $
Statements of Comprehensive Income						
Revenue						
Interest	-	125	125	-	103	103
Gains (losses) on investments	-	8,755	8,755	-	4,588	4,588
Expenses						
Management fees	18,908	-	18,908	23,865	-	23,865
Other operating expenses	-	1,922	1,922	-	2,935	2,935
Shareholder services	-	5,455	5,455	-	2,610	2,610
Statements of Changes in Net Assets						
Share issue expenses	-	4,092	4,092	-	3,895	3,895

[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 year ended December 31, 2018, compensation of key management personnel comprised solely short-term benefits in the amount of $503,000 ($508,000 for the year ended December 31, 2017).