# Capital régional et coopératif Desjardins

Interim Consolidated Financial Statements
**June 30, 2006**

PRICEWATERHOUSECOOPERS

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August 8, 2006

## Auditors' Report

**To the Shareholders of**
**Capital régional et coopératif Desjardins**

We have audited the consolidated balance sheets of **Capital régional et coopératif Desjardins** (the "Company") as at June 30, 2006 and December 31, 2005 and the consolidated statements of earnings (loss), shareholders' equity and cash flows for the six-month periods ended June 30, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these interim consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and December 31, 2005 and the results of its operations and its cash flows for the six-month periods ended June 30, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Capital régional et coopératif Desjardins
Consolidated Balance Sheets

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

| | As at June 30, 2006 $ | As at December 31, 2005 $ |
|---|---|---|
| **Assets** | | |
| Investments impacting the Québec economy (note 5) | 251,785 | 244,114 |
| Investments (note 6) | 385,261 | 352,319 |
| Accounts receivable (note 7) | 6,161 | 5,622 |
| Cash and cash equivalents | 29,082 | 10,581 |
| Software (net of accumulated amortization of $2,534; December 31, 2005 – $2,167) | 706 | 1,073 |
| Income taxes | 1,473 | - |
| Future income taxes (note 10) | 5,837 | 3,421 |
| | 680,305 | 617,130 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities (note 8) | 2,487 | 2,595 |
| Income taxes payable | - | 1,507 |
| | 2,487 | 4,102 |
| **Minority interest** (note 4) | 26,348 | 26,313 |
| | 28,835 | 30,415 |
| **Net assets** | 651,470 | 586,715 |
| **Shareholders' Equity** | | |
| Share capital (note 9) | 646,517 | 572,032 |
| Retained earnings | 4,953 | 14,683 |
| | 651,470 | 586,715 |
| **Number of outstanding common shares** | 63,781,367 | 56,600,254 |
| **Net assets per common share** | 10.21 | 10.37 |

The accompanying notes form an integral part of these interim consolidated financial statements.

**Approved by the Board of Directors**

Gauvreau Director

Director

# Capital régional et coopératif Desjardins

Consolidated Statements of Shareholders' Equity

**For the six-month periods ended June 30, 2006 and 2005**

(in thousands of dollars)

**2006**

| | Share capital $ | Retained earnings: Realized $ | Retained earnings: Unrealized $ | Retained earnings: Total $ | Shareholders' equity $ |
|---|---|---|---|---|---|
| **Balance – December 31, 2005** | 572,032 | 25,803 | (11,120) | 14,683 | 586,715 |
| **Net earnings (loss)** | | | | | |
| Realized net loss for the period, net of income taxes of $453,000 | - | (1,545) | - | (1,545) | (1,545) |
| Change in unrealized revenue for the period, net of income taxes of $(2,161,000) | - | - | (8,170) | (8,170) | (8,170) |
| Net loss for the period | - | (1,545) | (8,170) | (9,715) | (9,715) |
| **Share capital operations** | | | | | |
| Shares issued | 75,131 | - | - | - | 75,131 |
| Redemption of shares | (646) | (15) | - | (15) | (661) |
| | 74,485 | (15) | - | (15) | 74,470 |
| Net change for the period | 74,485 | (1,560) | (8,170) | (9,730) | 64,755 |
| **Balance – June 30, 2006** | 646,517 | 24,243 | (19,290) | 4,953 | 651,470 |

**2005**

| | Share capital $ | Retained earnings: Realized $ | Retained earnings: Unrealized $ | Retained earnings: Total $ | Shareholders' equity $ |
|---|---|---|---|---|---|
| **Balance – December 31, 2004** | 472,641 | 17,595 | (9,643) | 7,952 | 480,593 |
| **Net earnings (loss)** | | | | | |
| Realized net loss for the period, net of income taxes of $345,000 | - | (402) | - | (402) | (402) |
| Change in unrealized revenue for the period, net of income taxes of $943,000 | - | - | 3,212 | 3,212 | 3,212 |
| Net earnings (loss) for the period | - | (402) | 3,212 | 2,810 | 2,810 |
| **Share capital operations** | | | | | |
| Shares issued | 100,595 | - | - | - | 100,595 |
| Redemption of shares | (627) | (9) | - | (9) | (636) |
| | 99,968 | (9) | - | (9) | 99,959 |
| Net change for the period | 99,968 | (411) | 3,212 | 2,801 | 102,769 |
| **Balance – June 30, 2005** | 572,609 | 17,184 | (6,431) | 10,753 | 583,362 |

The accompanying notes form an integral part of these interim consolidated financial statements.

# Capital régional et coopératif Desjardins

Consolidated Statements of Earnings (Loss)

**For the six-month periods ended June 30, 2006 and 2005**

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

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Revenue** | | |
| Realized revenue | | |
| Interest on investments | 7,729 | 7,680 |
| Gain (loss) on disposal of investments | (167) | 912 |
| Interest on debentures and dividends | 5,056 | 1,604 |
| Loss on disposal of investments impacting the Québec economy | (2,012) | (310) |
| Negotiation fees | 772 | 908 |
| Membership dues | 118 | 214 |
| Changes in unrealized appreciation (depreciation) of | | |
| Investments impacting the Québec economy | (2,775) | (5,761) |
| Investments | (7,556) | 8,399 |
| Initial effect of accounting for investments at fair value (note 3) | - | 1,517 |
| | 1,165 | 15,163 |
| **Expenses** | | |
| Operating expenses | 11,145 | 9,307 |
| Shareholder services | 939 | 1,115 |
| Capital tax | 102 | 275 |
| Amortization of software | 367 | 368 |
| | 12,553 | 11,065 |
| **Earnings (loss) before income taxes and minority interest** | (11,388) | 4,098 |
| **Provision for (recovery of) income taxes** (note 10) | (1,708) | 1,288 |
| **Net earnings (loss) for the period before minority interest** | (9,680) | 2,810 |
| **Minority interest** (note 4) | 35 | - |
| **Net earnings (loss) for the period** | (9,715) | 2,810 |
| **Weighted average number of common shares** | 58,736,643 | 53,415,554 |
| **Net earnings (loss) per common share** | (0.17) | 0.05 |

The accompanying notes form an integral part of these interim consolidated financial statements.

# Capital régional et coopératif Desjardins

Consolidated Statements of Cash Flows

**For the six-month periods ended June 30, 2006 and 2005**

(in thousands of dollars)

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Cash flows from** | | |
| **Operating activities** | | |
| Net earnings (loss) for the period | (9,715) | 2,810 |
| Non-cash items | | |
| Loss (gain) on disposal of investments | 167 | (912) |
| Loss on disposal of investments impacting the Québec economy | 2,012 | 310 |
| Changes in unrealized appreciation (depreciation) of | | |
| Investments impacting the Québec economy | 2,775 | 5,761 |
| Investments | 7,556 | (8,399) |
| Initial effect of accounting for investments at fair value | - | (1,517) |
| Amortization of software | 367 | 368 |
| Amortization of premiums and discounts on investments | 1,114 | 1,645 |
| Future income taxes | (2,416) | 509 |
| Minority interest | 35 | - |
| Capitalized interest and other non-cash items | (341) | (308) |
| | 1,554 | 267 |
| Changes in non-cash operating working capital balances (note 11) | (3,998) | (3,528) |
| | (2,444) | (3,261) |
| **Investing activities** | | |
| Acquisition of investments impacting the Québec economy | (25,180) | (65,901) |
| Acquisition of investments | (79,475) | (95,951) |
| Proceeds on disposal of investments impacting the Québec economy | 13,063 | 5,929 |
| Proceeds on disposal of investments | 38,160 | 107,570 |
| | (53,432) | (48,353) |
| **Financing activities** | | |
| Issuance of common shares | 75,038 | 100,595 |
| Redemption of shares | (661) | (636) |
| | 74,377 | 99,959 |
| **Increase in cash and cash equivalents during the period** | 18,501 | 48,345 |
| **Cash and cash equivalents – Beginning of period** | 10,581 | 3,663 |
| **Cash and cash equivalents – End of period** | 29,082 | 52,008 |
| **Supplementary information** | | |
| Income taxes paid | 3,790 | 3,075 |

The accompanying notes form an integral part of these interim consolidated financial statements.

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

## 1 Governing statutes, mission, administration and investments

### Governing statutes and mission

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

- raise venture capital for the benefit of Québec resource regions (Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean) and the cooperative sector;

- promote economic development in the resource regions through investments in eligible entities operating in those regions;

- support the cooperative movement throughout Québec by investing in eligible cooperatives;

- support eligible entities in their start-up phase and their development; and

- stimulate the Québec economy through investments in all parts of the territory of Québec.

### Administration

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

- eight persons appointed by the President of the Desjardins Group;

- two persons elected by the General Meeting of shareholders of the Company;

- two persons appointed by the above-mentioned ten members, selected from a group of persons whom they deem to be representative of eligible entities as described in the Act; and

- the General Manager of the Company.

### Investments

The Company may acquire minority interests, mainly in eligible entities, with or without a guarantee or security. Eligible entities include eligible cooperatives and partnerships or a legal person actively operating an enterprise, the majority of whose employees are resident in Québec and with less than $100,000,000 of assets and net equity of not more than $50,000,000.

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

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

Pursuant to the Act, other investments may qualify as eligible such as investments in certain investment funds if required specific conditions provided for in the Act are present.

During each fiscal year from the fiscal year beginning on January 1, 2006, the portion of the Company's investments in eligible entities, as well as other eligible investments which do not entail any security or hypothec and are made as first purchaser, must represent on average at least 60% of the average net assets of the Company for the preceding year. Furthermore, a portion representing at least 35% of that percentage must be invested in entities situated in resource regions of Québec or in eligible cooperatives. Investments made other than as first purchaser for the acquisition of securities issued by an eligible entity may also be considered for the purpose of these calculations to the extent where they do not represented more than one third of the total investments made as first purchaser in that entity.

## 2 Significant accounting policies

### Principle of consolidation

These consolidated financial statements include the accounts of the Company and those of its subsidiary, Desjardins – Innovatech S.E.C.

### Use of estimates

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

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

**Investments impacting the Québec economy**

Listed shares

The investments in listed shares are recorded at their fair value. Fair value is established using the bid-side level at market closing on the balance sheet date. The value of the shares that are restricted in negotiability or transferability is adjusted by a discount. The Company determines the amount of this discount based on the nature and duration of the restriction, the relative volatility of the share's performance, as well as the importance of the interest held in the overall float of outstanding shares.

Unlisted shares, debentures and advances

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

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

**Investments**

Investments consist of temporary investments, bonds and preferred shares recorded at fair value. Fair value is calculated according to the market value, which is the bid-side level at market closing on the balance sheet date.

Obligations related to securities sold short

Securities sold short as part of trading activities, which represent the Company's obligation to deliver securities sold which were not owned at the time of sale, are recorded as liabilities offsetting the investments and are carried at fair value. Realized and unrealized gains and losses thereon are recorded in revenue in "Interest on investments". As at June 30, 2006, the Company has no securities sold short.

Securities purchased under resale agreements and securities sold under repurchase agreements

The Company enters into short-term purchases and sales of securities with simultaneous agreements to sell and buy back those securities at a specified price and on a specified date. Those agreements are accounted for as collateralized lending and borrowing transactions, and are recorded on the balance sheet at the selling or repurchase price specified under the agreement. The difference between the purchase price and specified selling price and the difference between the selling price and the specified repurchase price are recorded using the accrual method in "Interest on investments". As at June 30, 2006, the Company has no securities purchased under resale agreements or securities sold under repurchase agreements.

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

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and short-term deposits with original terms to maturity of three months or less, which deposits were previously classified with investments.

**Software**

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

**Income taxes**

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

**Revenue recognition**

Interest and dividends

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

Gains and losses on disposal

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

Membership dues

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

Negotiation fees

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

Premiums and discounts

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

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

## 3 Change in accounting policy

In January 2004, the Canadian Institute of Chartered Accountants Accounting Standards Board issued Accounting Guideline AcG-18, which requires investment companies to carry investments at fair value. The Company has decided to apply this new standard prospectively starting January 1, 2005. Consequently, bonds previously carried at unamortized cost are carried at their fair value. This change in accounting policy increases both the investment and unrealized appreciation (depreciation) balances by $1,517,000 respectively, decreases future income taxes by $289,000, and increases net asset value per common share by $0.03 to $10.28 at January 1, 2005.

## 4 Business acquisition

On July 4, 2005, the Company took part in the creation of Desjardins – Innovatech S.E.C. ("D-I") through a cash contribution of $30,000,000 for units representing a 53.1% interest in the limited partnership. The second limited partner, Société Innovatech Régions ressources ("IRR"), has contributed to the creation through the transfer of a portfolio, including related commitments, for an amount of $26,500,000. Its units represent a 46.9% interest in the limited partnership. Desjardins Venture Capital Inc. has contributed $564 as the general partner.

The acquisition has been accounted for under the purchase method and the results of operations, cash flows, assets and liabilities are included in the consolidated financial statements since July 4, 2005. The Company completed its purchase price allocation using the estimated fair value of the net assets acquired based on information and valuations available as of July 4, 2005.

Assets and liabilities described below were transferred by IRR:

| | $ |
|---|---|
| **Assets and liabilities** | |
| Investments | 26,265 |
| Cash | 1,535 |
| Provision for surety | (1,300) |
| Net assets acquired | 26,500 |

The purchase agreement with IRR included adjustment clauses related to certain assets and to the provision for surety. These adjustments would be settled by the issuance of units to IRR or the cancellation of certain units held by IRR.

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

One of these adjustment clauses will be exercised during the year ending December 31, 2006. The effect of this adjustment on the Company's investments impacting the Québec economy balance and the minority interest balance will be determined upon the conclusion of the negotiations. The effect on the Company's net assets will not be significant and the net assets per common share will not be affected.

Another adjustment clause is still in force and could reduce the Company's interest by a maximum of 1.2%.

## 5 Investments impacting the Québec economy

| | As at June 30, 2006 | | As at December 31, 2005 | |
|---|---|---|---|---|
| | **Cost** **$** | **Fair value** **$** | **Cost** **$** | **Fair value** **$** |
| Unsecured | | | | |
| Common shares | 58,453 | 63,599 | 59,468 | 65,441 |
| Preferred shares | 96,552 | 80,768 | 94,597 | 79,545 |
| Debentures and advances | 104,018 | 97,955 | 94,296 | 91,262 |
| | 259,023 | 242,322 | 248,361 | 236,248 |
| Secured | | | | |
| Debentures and advances | 10,822 | 9,463 | 11,038 | 7,866 |
| | 269,845 | 251,785 | 259,399 | 244,114 |

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

The debentures and advances bear interest at a weighted average rate of 10.8% (December 31, 2005 – 10.8%) and have an average residual maturity of 5.14 years as at June 30, 2006 (December 31, 2005 – 5.33 years).

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

Allocation of investments by industry segment

| | As at June 30, 2006 | | |
|---|---|---|---|
| **Industry segment** | **Investments at cost $** | **Unrealized appreciation (depreciation) $** | **Fair value $** |
| Cooperatives | 35,885 | (2,291) | 33,594 |
| Industrial | 127,925 | (3,569) | 124,356 |
| Health and biotechnology | 51,215 | (9,728) | 41,487 |
| Telecommunications | 20,925 | 2,486 | 23,411 |
| Information technology | 32,784 | (5,045) | 27,739 |
| Investment funds | 1,111 | 87 | 1,198 |
| Total | 269,845 | (18,060) | 251,785 |

| | As at December 31, 2005 | | |
|---|---|---|---|
| **Industry segment** | **Investments at cost $** | **Unrealized appreciation (depreciation) $** | **Fair value $** |
| Cooperatives | 34,374 | (373) | 34,001 |
| Industrial | 115,624 | (4,001) | 111,623 |
| Health and biotechnology | 51,449 | (6,949) | 44,500 |
| Telecommunications | 19,731 | 2,136 | 21,867 |
| Information technology | 37,454 | (6,270) | 31,184 |
| Investment funds | 767 | 172 | 939 |
| Total | 259,399 | (15,285) | 244,114 |

Funds committed but not disbursed are presented in note 13.

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

## 6 Investments

a) Allocation of investments by instrument

| | As at June 30, 2006 | | As at December 31, 2005 | |
|---|---|---|---|---|
| | Unamortized cost $ | Fair value $ | Unamortized cost $ | Fair value $ |
| Bonds | | | | |
| Federal | 107,569 | 105,354 | 84,583 | 84,811 |
| Provincial and guaranteed | 204,003 | 200,739 | 187,309 | 187,059 |
| Financial institutions | 51,528 | 50,776 | 57,163 | 57,906 |
| Companies | 19,929 | 19,622 | 21,753 | 21,932 |
| | 383,029 | 376,491 | 350,808 | 351,708 |
| Preferred shares | 8,886 | 8,770 | 609 | 611 |
| Total | 391,915 | 385,261 | 351,417 | 352,319 |

b) Allocation of bonds by maturity date

| | | | | As at June 30, 2006 |
|---|---|---|---|---|
| Maturity | Less than 1 year $ | 1 to 5 years $ | More than 5 years $ | Total $ |
| Unamortized cost | 3,583 | 223,142 | 156,304 | 383,029 |
| Par value | 3,550 | 218,285 | 150,537 | 372,372 |
| Fair value | 3,574 | 220,389 | 152,528 | 376,491 |
| Average nominal rate | 5.55% | 5.17% | 4.90% | 5.06% |
| Average effective rate | 4.52% | 4.21% | 4.32% | 4.26% |

| | | | | As at December 31, 2005 |
|---|---|---|---|---|
| Maturity | Less than 1 year $ | 1 to 5 years $ | More than 5 years $ | Total $ |
| Unamortized cost | 12,137 | 110,618 | 228,053 | 350,808 |
| Par value | 12,000 | 105,665 | 220,522 | 338,187 |
| Fair value | 12,128 | 110,389 | 229,191 | 351,708 |
| Average nominal rate | 6.30% | 5.42% | 5.00% | 5.04% |
| Average effective rate | 3.51% | 3.95% | 4.29% | 4.13% |

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

## 7 Accounts receivable

| | **As at June 30 2006 $** | **As at December 31, 2005 $** |
|---|---|---|
| Interest receivable on investments | 3,620 | 2,947 |
| Sales taxes receivable | 488 | 416 |
| Subscriptions receivable | 93 | - |
| Other accounts receivable | 1,960 | 2,259 |
| | 6,161 | 5,622 |

## 8 Accounts payable and accrued liabilities

a)

| | **As at June 30 2006 $** | **As at December 31, 2005 $** |
|---|---|---|
| Entities of the Desjardins Group | | |
| Investments payable | 464 | - |
| Shareholder services | 339 | 493 |
| Provision for surety (note 8(b)) | 1,300 | 1,300 |
| Other | 384 | 802 |
| | 2,487 | 2,595 |

b) The provision consists of a surety on commitments of a portfolio entity to one of its lenders. The surety, which was first granted by IRR, is now assumed by Desjardins – Innovatech S.E.C. following the business acquisition (note 4).

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

## 9 Share capital

Authorized

The Company is authorized to issue common shares and fractions of common shares, participating, voting, with the right to elect two representatives to the Board of Directors, without par value, redeemable subject to certain conditions provided under the Act, so that its capital increases by a maximum of $150 million annually to a maximum of $1.325 million by February 28, 2011, the date of the end of the final capitalization period. However, during the last three capitalization periods, in order to reach its authorized capital, the Company may issue shares for amounts greater than $150 million since it has to redeem shares issued at least seven years previously from shareholders who so request. Each capitalization period, which lasts twelve months, will begin on March 1 of each year.

In an announcement of the Québec Minister of Finance on March 11, 2005, the annual limit of capital increase for the year 2005 was reduced to $100 million. This reduction as well as previous years' reductions result in a cumulative limit of $725 million as at February 28, 2007.

Issued and fully paid

| | **As at June 30 2006 $** | **As at December 31, 2005 $** |
|---|---|---|
| 63,781,367 Common shares (2005 – 56,600,254) | 646,517 | 572,032 |

During the period, the Company issued 7,244,911 common shares (during the year 2005 – 9,815,116) for a cash consideration of $75,129,801 (during the year 2005 – $100,605,101).

During the period, the Company redeemed 63,798 common shares (during the year 2005 – 120,122) for a cash consideration of $660,625 (during the year 2005 – $1,233,514).

These data do not include the redemption requests made within 30 days of subscription.

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

**Redemption criteria**

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

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

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

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

## 10 Income taxes

The Company is subject to Federal income taxes, including the large corporations tax, and provincial income tax.

a) The income tax expense is detailed as follows:

| | June 30, 2006 $ | June 30, 2005 $ |
|---|---|---|
| Current income taxes | 708 | 779 |
| Future income taxes | (2,416) | 509 |
| | (1,708) | 1,288 |

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

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

| | June 30, 2006 $ | June 30, 2005 $ |
|---|---|---|
| Income taxes by applying the Federal and provincial combined income tax rate of 39.02% (2005 – 38.02%) | (4,444) | 1,557 |
| Large corporations tax* | (105) | 222 |
| Permanent differences between earnings before income taxes and taxable income and other | 2,841 | (491) |
| | (1,708) | 1,288 |

* Until 2005 the large corporations tax was based on capital employed in Canada by the Company. This tax was abolished in 2006.

c) Future income taxes relate to the following items:

| | As at June 30, 2006 $ | As at June 30, 2005 $ |
|---|---|---|
| Future income tax assets | | |
| Unrealized appreciation (depreciation) | 5,364 | 3,203 |
| Amortization of premiums on bonds | 664 | 558 |
| Other | 72 | 55 |
| | 6,100 | 3,816 |
| Future income tax liabilities | | |
| Software | (263) | (395) |
| Future income tax assets, net | 5,837 | 3,421 |

d) The purchase of shares of the Company provides the right to the investor to reduce its taxes in Québec only by an amount equal to 35% (50% before March 24, 2006) of the amount invested annually, up to a tax credit of $875 (before March 24, 2006 – $1,250).

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

## 11 Cash flows

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

| | June 30, 2006 $ | June 30, 2005 $ |
|---|---|---|
| Increase in accounts receivable | (446) | (1,014) |
| Decrease in accounts payable and accrued liabilities | (572) | (493) |
| Decrease in income taxes payable | (2,980) | (2,021) |
| | (3,998) | (3,528) |

## 12 Related party transactions

Major agreements with the Company and entities of the Desjardins Group are as follows:

- The Company has entrusted the management of its operations, including management of its portfolio, to Desjardins Venture Capital Inc. ("DVC"), an entity of the Desjardins Group, in accordance with strategies and objectives approved by the Board of Directors. The management contract signed by DVC and the Company is in effect for an initial ten-year period, unless the parties agree to terminate the contract by mutual agreement. Thereafter, the contract shall be automatically renewed for a five-year period unless either party decides to terminate the contract by giving written notice of at least 18 months.

  Under this contract, the Company is required to pay an annual management fee equal to 3% of its annual non-consolidated assets' average net value reduced by any amount payable for the acquisition of investments and by the remaining balance of the deferred non-refundable grant. In order to avoid double billing on the Company's investment in Desjardins – Innovatech S.E.C., an adjustment to the management fee was made. This percentage is reduced to 2.5% from the fiscal year following that in which the Company's net asset value reaches $750,000,000.

  Desjardins – Innovatech S.E.C., the Company's subsidiary (note 4), is managed and operated by its general partner, DVC, as established by the limited partnership agreement dated July 4, 2005. This agreement is effective for an initial term of ten years and may be extended for a maximum of three years. The limited partners may decide to dismiss the general partner before the expiry date of the agreement. In accordance with the agreement, Desjardins – Innovatech S.E.C. has committed to disburse annual management fees representing 3% of the assets' average net value reduced by any amount payable for the acquisition of investments and by the amount attributable to the provision for surety. Additional compensation equivalent to 20% of the return attributable to the limited partners in excess of an annual average return of 7.5% is payable upon the partnership's liquidation.

- The Company has appointed Desjardins Trust Inc., an entity of the Desjardins Group, to act as its registrar and transfer agent with respect to shareholder transactions. This contract is for a period of three years starting January 1, 2005.

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

- The Company has appointed the Fédération des caisses Desjardins du Québec, an entity of the Desjardins Group, for the distribution of the Company's shares in the entities of the Desjardins Group. The current agreement is effective for the following year and will be automatically renewed each year under the same terms and conditions unless one of the parties gives written notice to the contrary three months before the expiry date of the agreement.

The Company is related to the Desjardins Group. In the normal course of its operations, the Company carried out transactions with other entities of the Desjardins Group. All of these transactions are measured at the exchange amount:

| | **As at June 30, 2006 $** | **As at December 31, 2005 $** |
|---|---|---|
| Balance sheets | | |
| Caisse centrale Desjardins | | |
| Cash and cash equivalents | 1,674 | 8,525 |
| Capital Desjardins inc. | | |
| Bonds | 23,774 | 29,300 |
| Desjardins Securities | | |
| Cash and cash equivalents | 3,273 | 942 |
| Accounts payable and accrued liabilities | 464 | - |
| Desjardins Trust Inc. | | |
| Accounts payable and accrued liabilities | 339 | 493 |
| Desjardins Venture Capital Inc. | | |
| Accounts payable and accrued liabilities | - | 280 |
| Desjardins Venture Capital L.P. | | |
| Investments impacting the Québec economy | - | 13,038 |
| Fédération des caisses Desjardins du Québec | | |
| Accounts payable and accrued liabilities | 80 | 291 |

| | **June 30, 2006 $** | **June 30, 2005 $** |
|---|---|---|
| Statements of earnings | | |
| Caisse centrale Desjardins | | |
| Interest on term deposits | 124 | 681 |
| Capital Desjardins inc. | | |
| Interest on investments | 605 | 690 |
| Desjardins Trust Inc. | | |
| Shareholder services | 724 | 977 |
| Desjardins Venture Capital Inc. | | |
| Management fees | 10,306 | 8,695 |
| Other operating expenses | 149 | 181 |
| Fédération des caisses Desjardins du Québec | | |
| Operating expenses | 194 | 73 |

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

## 13 Commitments

Funds committed but not disbursed represent investments that have been agreed upon and which have been committed but not disbursed at the end of the period. Future disbursements are subject to certain conditions. Funds committed but not disbursed amount to $52,879,000 as at June 30, 2006 (December 31, 2005 – $64,999,000). Assuming that the conditions will be respected, the estimated installments for the next four years ended December 31 are as follows:

| | $ |
|---|---|
| 2006 (six months) | 15,967 |
| 2007 | 20,097 |
| 2008 | 10,967 |
| 2009 | 5,848 |

Allocation of funds committed but not disbursed by industry segment are as follows:

| Industry segment | Funds committed but not disbursed, at cost $ |
|---|---|
| Cooperatives | 3,066 |
| Industrial | 7,392 |
| Health and biotechnology | 5,478 |
| Telecommunications | 1,674 |
| Information technology | 1,216 |
| Investment funds | 34,053 |
| Total | 52,879 |

## 14 Financial instruments

### Fair value

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

### Credit risk

Credit risk of investments relates to the possibility that the counterparty to the transaction does not meet its obligations. The Company reduces this risk by dealing solely with high-credit quality corporations; therefore, the Company considers the risk of non-performance and credit risk on these instruments to be remote.

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

### Interest rate risk

Cash and cash equivalents bear interest at a weighted average rate of 4.12% (December 31, 2005 – prime rate less 2.25%). Accounts receivable and accounts payable and accrued liabilities are non-interest bearing.

The Company does not hold any derivative financial instruments.

## 15 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

## 16 Non-consolidated schedule of cost of investments impacting the Québec economy

The non-consolidated schedule of cost of investments impacting the Québec economy as at June 30, 2006 and December 31, 2005 with the related auditors' report is presented separately from these financial statements and is available at the Company's head office, on the Company's website and on SEDAR.