Capital régional et coopératif Desjardins

Financial Statements
December 31, 2013

February 12, 2014

Independent Auditor's Report

To the Shareholders of Capital régional et coopératif Desjardins

We have audited the accompanying financial statements of Capital régional et coopératif Desjardins, which comprise the balance sheets as at December 31, 2013 and December 31, 2012 and the statements of earnings, shareholder's equity and the cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins as at December 31, 2013 and December 31, 2012 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP[1]

Montréal, Canada

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

Capital régional et coopératif Desjardins

Balance sheets

As at December 31, 2013 and 2012

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

	2013 $	2012 $
Assets		
Investments impacting the Québec economy (note 4)	733,907	659,045
Other investments (note 5)	706,996	670,572
Cash	9,701	7,357
Accounts receivable (note 6)	22,258	29,946
Income taxes (note 14)	23,654	18,350
	1,496,516	1,385,270
Liabilities		
Accounts payable (note 8)	3,776	2,501
Notes payable and financial liabilities (note 9)	15,000	11,352
Income taxes (note 14)	7,164	14,971
	25,940	28,824
Net assets	1,470,576	1,356,446
Number of common shares outstanding	126,164,932	118,243,301
Net asset value per common share	11.66	11.47

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

Approved by the Board of Directors

(signed) André Lachapelle, Director   (signed) Jacques Plante, Director

Capital régional et coopératif Desjardins

Statements of Earnings

For the years ended December 31, 2013 and 2012

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

	2013 $	2012 $
Revenue		
Interest	42,611	43,474
Dividends	8,853	6,275
Negotiation fees (note 2)	-	3,143
Administrative charges	518	599
	51,982	53,491
Expenses		
Management fee	23,533	27,529
Other operating expenses (note 13)	3,749	3,376
Shareholder services (note 13)	1,832	1,611
	29,114	32,516
Net investment income	22,868	20,975
Gains (losses) on investments		
Realized	3,785	54,748
Unrealized	6,885	(12,372)
	10,670	42,376
Income taxes (note 14)	8,588	9,916
Net earnings for the year	24,950	53,435
Weighted average number of common shares	125,371,031	115,382,984
Net earnings per common share	0.20	0.46

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

Capital régional et coopératif Desjardins

Statements of Shareholders' Equity

For the years ended December 31, 2013 and 2012

(in thousands of dollars, except number of shares)

2013

	Number of shares	**Share capital $**	**Contributed surplus** $**	**Retained earnings (deficit) Realized $**	**Unrealized $**	**Total $**	**Net assets $**
Balance – December 31, 2012	118,243,301	1,189,745	2,004	106,577	58,120	164,697	1,356,446
Results for the year	-	-	-	18,065	6,885	24,950	24,950
Share capital operations*							
Issuance of common shares	13,077,144	149,995	-	-	-	-	149,995
Issuance costs, net of income taxes of $1,155	-	(1,740)	-	-	-	-	(1,740)
Redemption of common shares	(5,155,513)	(52,787)	(2,004)	(4,284)	-	(4,284)	(59,075)
	7,921,631	95,468	(2,004)	13,781	6,885	20,666	114,130
Balance – December 31, 2013	126,164,932	1,285,213	-	120,358	65,005	185,363	1,470,576

2012

	Number of shares	**Share capital $**	**Contributed surplus** $**	**Retained earnings (deficit) Realized $**	**Unrealized $**	**Total $**	**Net assets $**
Balance – December 31, 2011	110,775,643	1,102,322	6,843	40,770	70,492	111,262	1,220,427
Results for the year	-	-	-	65,807	(12,372)	53,435	53,435
Share capital operations*							
Issuance of common shares	13,611,202	149,994	-	-	-	-	149,994
Redemption of common shares	(6,143,544)	(62,571)	(4,839)	-	-	-	(67,410)
	7,467,658	87,423	(4,839)	65,807	(12,372)	53,435	136,019
Balance – December 31, 2012	118,243,301	1,189,745	2,004	106,577	58,120	164,697	1,356,446

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

** The contributed surplus results from the excess of the shares' issuance price over the price payable for their redemption.

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

Capital régional et coopératif Desjardins

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(in thousands of dollars)

	2013 $	2012 $
Cash flows from		
Operating activities		
Net earnings for the year	24,950	53,435
Adjustments for		
Realized gains on investments	(3,785)	(54,748)
Unrealized losses (gains) on investments	(6,885)	12,372
Amortization of premiums and discounts on other investments	3,631	3,898
Future income taxes	(25)	191
Capitalized interest and other non-cash items	(3,119)	(2,498)
	14,767	12,650
Changes in non-cash operating working capital balances (note 15)	(11,487)	(7,732)
	3,280	4,918
Investing activities		
Acquisitions of investments impacting the Québec economy	(131,862)	(228,044)
Acquisitions of other investments	(859,964)	(494,939)
Proceeds on disposal of investments impacting the Québec economy	107,267	127,434
Proceeds on disposal of other investments	802,328	486,509
	(82,231)	(109,040)
Financing activities		
Issuance of common shares	147,357	149,994
Redemption of common shares	(59,075)	(67,410)
	88,282	82,584
Net change in cash and cash equivalents during the year	9,331	(21,538)
Cash and cash equivalents – Beginning of the year	10,953	32,491
Cash and cash equivalents – End of the year (note 12)	20,284	10,953
Supplementary information		
Income taxes paid	20,277	13,916

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

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

1 Governing statutes, administration and investments

Governing statutes

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

Administration

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

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

Investments

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

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

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

At the end of each fiscal year, the portion of the Company's investments in eligible entities, as well as other eligible investments which do not entail any security or hypothec and are made as first purchaser, must represent on average at least 60% of the average adjusted net assets of the Company for the preceding year. Furthermore, a portion representing at least 35% of that percentage must be invested in entities situated in resource regions of Québec or in eligible cooperatives. If these criteria were not met, the Company could be subject to penalties. As at December 31, 2013 and December 31, 2012, no amount was owed by the Company under these rules.

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

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

2 Significant accounting policies

Use of estimates

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

Comprehensive income

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

Investments impacting the Québec economy

Listed shares

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

Unlisted shares, loans and advances

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

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

Sureties

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

Other investments

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

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

Obligations related to securities sold short

Securities sold short as part of trading activities, which represent the Company's obligation to deliver securities which were not owned at the time of sale, are recorded as liabilities and are measured at fair value using the ask price at market closing on the balance sheet date. Realized and unrealized gains and losses thereon are recorded in the Statement of Earnings as interest. As at December 31, 2013 and December 31, 2012, the Company had 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 resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions, and are recorded on the balance sheet at the resale or repurchase price specified under the agreement. The difference between the purchase price and specified resale price and the difference between the selling price and the specified repurchase price are recorded using the accrual method in Interest. As at December 31, 2013 and December 31, 2012, the Company had no securities purchased under resale agreements nor securities sold under repurchase agreements.

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

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

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

Amounts receivable on disposal of investments impacting the Québec economy are accounted for at fair value, which is determined in the same way as the fair value of investments impacting the Québec economy.

Foreign currency translation

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

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

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

Notes payable and financial liabilities

Notes payable and financial liabilities are related to certain investments' acquisitions and are recorded at their fair value, which represents the amount that the Company would have to pay in accordance with the underlying contractual agreements to these notes and financial liabilities at the balance sheet date.

Shareholders' equity

Issuance costs, net of applicable income taxes, are included in the Statement of Shareholders' Equity.

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

Income taxes

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

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

Revenue recognition

Interest and dividends

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

Administrative charges

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

Negotiation fees

Negotiation fees are recognized when the service is performed and when collection is considered probable. As of January 1, 2013, these fees have been earned by Desjardins Venture Capital Inc. ("DVC"), the Company's manager, with an equivalent credit applied as a reduction of the Company's management fees.

Gains and losses on investments

Realized gains and losses on investments are recorded at the date of sale and represent the difference between sale proceeds and unamortized cost, without taking into consideration the unrealized gains and losses recorded in previous years, which are reversed and taken into account in change in unrealized gains and losses for the year.

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

Realized gains and losses on notes payable

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

Premiums and discounts

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

3 Future changes in accounting policies

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

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

4 Investments impacting the Québec economy

The Schedule of Cost of Investments Impacting the Québec Economy is available at the Company's head office, on its Web site at capitalregional.com and on SEDAR at www.sedar.com. The Schedule does not form an integral part of the financial statements.

			2013
	Cost $	**Unrealized gain (loss)** $	**Fair value** $
Unsecured			
Common shares and fund units	396,091	66,754	462,845
Preferred shares	83,997	6,613	90,610
Loans and advances	185,187	(10,185)	175,002
Secured			
Loans and advances	6,272	(822)	5,450
	671,547	62,360	733,907

			2012
	Cost $	**Unrealized gain (loss)** $	**Fair value** $
Unsecured			
Common shares and fund units	316,091	34,355	350,446
Preferred shares	78,465	2,142	80,607
Loans and advances	225,225	(2,708)	222,517
Secured			
Loans and advances	5,633	(158)	5,475
	625,414	33,631	659,045

Investments impacting the Québec economy include investments valued in U.S. dollars for an amount of $127.6 million ($92.6 million as at December 31, 2012) and in Australian dollars for an amount of $0.1 million ($1.3 million as at December 31, 2012).

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

Loans and advances bear interest at the average weighted rate of 11.3% (11.3% as at December 31, 2012) and have an average residual maturity of 4.5 years (4.2 years as at December 31, 2012). The interest rate is fixed for substantially all interest-bearing loans and advances.

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

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

2013

Asset class	Investments at cost $	Unrealized gain (loss) $	Fair value $	Funds committed but not disbursed[1] $	Total commitment $
Development Capital	154,102	(320)	153,782	2,450	156,232
Company buyouts and Major Investments	315,223	72,869	388,092	24,000	412,092
Technological Innovations	23,168	(5,038)	18,130	-	18,130
Venture Capital – Health	13,456	(11,515)	1,941	-	1,941
Funds	165,598	6,364	171,962	201,143	373,105
Total	671,547	62,360	733,907	227,593	961,500

2012

Asset class	Investments at cost $	Unrealized gain (loss) $	Fair value $	Funds committed but not disbursed[1] $	Total commitment $
Development Capital	155,817	2,108	157,925	3,596	161,521
Company buyouts and Major Investments	285,690	52,684	338,374	12,500	350,874
Technological Innovations	25,196	(7,521)	17,675	-	17,675
Venture Capital - Health	13,456	(11,056)	2,400	-	2,400
Funds	145,255	(2,584)	142,671	126,254	268,925
Total	625,414	33,631	659,045	142,350	801,395

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

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

2014	2015	2016	2017	2018 and after	Total
$77,938	$46,303	$46,478	$19,929	$36,945	$227,593

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

5 Other investments

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

			2013
	Cost $	Unrealized gain (loss) $	Fair value $
Bonds			
Federal or guaranteed	183,418	835	184,253
Provincial, municipal or guaranteed	221,118	(230)	220,888
Financial institutions	160,829	2,831	163,660
Companies	52,318	560	52,878
	617,683	3,996	621,679
Money market instruments[1]	12,278	-	12,278
Foreign exchange contracts[2]	-	(484)	(484)
Preferred shares	76,186	(2,663)	73,523
Total	706,147	849	706,996

Allocation of bonds by maturity date

				2013
Maturity	**Less than 1 year** $	**1 to 5 years** $	**More than 5 years** $	**Total** $
Unamortized cost	-	381,060	236,623	617,683
Par value	-	374,707	229,253	603,960
Fair value	-	385,445	236,234	621,679
Average nominal rate[3]	-	3.00%	3.83%	3.31%
Average effective rate	-	2.44%	3.26%	2.75%

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

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

Allocation of bonds by maturity date

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

[1] Money market instruments consist of term deposits, Treasury bills and strip bonds with an original maturity of less than a year. As at December 31, 2013, all money market instruments have an original maturity of two to five months while as at December 31, 2012, they all had an original maturity of two to nine months.

[2] Foreign exchange contracts to sell USD 133.0 million (United States dollars) and AUD 0.1 million (Australian dollars) have three-month maturities. (USD 114.0 million and AUD 1.4 million as at December 31, 2012).

[3] Substantially all bonds are fixed-interest rate issues.

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

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

6 Accounts receivable

	2013 **$**	**2012** **$**
Interest and dividends receivable on investments	4,975	4,665
Sales taxes receivable	189	761
Amounts receivable on disposal of investments impacting the Québec economy	15,234	23,436
Other accounts receivable	1,860	1,084
	22,258	29,946

Amounts receivable on disposal of investments impacting Québec economy include amounts valued in USD for $14.3 million ($22.8 million as at December 31, 2012).

7 Line of credit

The Company has an authorized line of credit of $10 million with Caisse centrale Desjardins. This banking credit bears interest at the operating credit rate of Caisse centrale Desjardins plus 0.5%. This line of credit is guaranteed by a portion of the money market instruments and bonds recorded in Other investments and is renewable on an annual basis. As at December 31, 2013 and December 31, 2012, the Company had not drawn on the line of credit.

8 Accounts payable

	2013 **$**	**2012** **$**
Suppliers and accrued liabilities	2,100	1,859
Other accounts payable	1,676	642
	3,776	2,501

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

9 Notes payable and financial liabilities

On November 30, 2010, the Company acquired from Desjardins Venture Capital L.P., a subsidiary of Fédération des Caisses Desjardins du Québec, investments with a fair value of $17.6 million as consideration for notes of equal initial value maturing on November 30, 2013. Each note payable is related to one of the acquired investments and contains a provision under which the amount payable shall be adjusted based on the amounts received by the Company on the sale of the related investment. If the amount received by the Company at the time of sale is less than the initial cost of the investment, the amount of the note will be adjusted to the amount received. However, if the amount received by the Company at the time of sale is more than the initial cost of the investment, the amount of the note will be increased by 70% of the realized gain. Management fees paid by the Company in respect of investments between their dates of acquisition and their dates of sale are deducted from the amount of the related notes.

On November 30, 2013, a new agreement extended the term of the notes for a six-month period until May 31, 2014, on the same terms and conditions.

As at December 31, 2013, notes payable with a fair value of $10.4 million were related to investments valued in USD ($8.5 million as at December 31, 2012).

On April 27, 2012, the Company acquired from the Desjardins Group Pension Plan, investments with a fair value of $5.9 million for a cash consideration. In the three years following their acquisition, if the Company disposes of the investments for an amount exceeding their initial cost, an additional amount determined based on the amount received will be payable to the Desjardins Group Pension Plan.

10 Shareholders' equity

Share capital authorized

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

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

Each capitalization period, which lasts twelve months, begins on March 1st of each year. The maximum the Company can raise in the capitalization period ending on February 28, 2014 is $150 million. As at December 31, 2013 and December 31, 2012, the Company is in compliance with this limit.

Redemption criteria

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

- At the request of the person who acquired it from the Company at least seven years prior to redemption;
- At the request of a person to whom it has been devolved by succession;
- At the request of the person who acquired it from the Company if the person applies to the Company therefore in writing within 30 days of subscription;
- 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.

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

The new management agreement, effective January 1, 2013, now allocates share issue expenses to the Company, whereas they were formerly borne by the Desjardins caisse network. The Company recognized share issue expenses amounting to $1.7 million net of taxes in 2013 as a reduction of share capital.

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

Tax credit

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

For purchases prior to March 24, 2006: 50% tax credit, $1,250 maximum.
For purchases from March 24, 2006 to November 9, 2007: 35% tax credit, $875 maximum.
For purchases subsequent to November 9, 2007: 50% tax credit, $2,500 maximum.

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

11 Capital disclosures

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

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

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

12 Cash and cash equivalents

	2013 $	2012 $
Cash	9,701	7,357
Money market instruments	10,583	3,596
	20,284	10,953

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

13 Expenses

	2013	**2012**
	$	**$**
Other operating expenses		
Audit fees	249	269
Directors’ compensation	473	368
Other professional fees	910	704
Custodial and trustee fees	110	112
Computer development	1,568	1,291
Other expenses	439	632
	3,749	3,376
Shareholder services		
Trustee fees	1,257	1,336
Reporting to shareholders	386	134
Other expenses	189	141
	1,832	1,611

14 Income taxes

a) Income tax expense is detailed as follows:

		2013		**2012**
	Earnings	**Shareholders’ equity**	**Earnings**	**Shareholders’ equity**
	$	**$**	**$**	**$**
Current income taxes	8,613	(257)	9,725	-
Future income taxes	(25)	(898)	191	-
	8,588	(1,155)	9,916	-

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

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

	2013	**2012**
	$	**$**
Income taxes by applying the combined basic tax rate of 39.90%	13,382	25,277
Permanent differences between earnings before income taxes and taxable income and other items		
Realized and unrealized losses (gains) on investments	352	(8,566)
Untaxable dividends	(3,533)	(2,503)
Refundable tax	(1,473)	(4,632)
Others	(140)	340
	8,588	9,916

c) Income taxes balances include the following items:

		2013		**2012**
	Assets	**Liabilities**	**Assets**	**Liabilities**
	$	**$**	**$**	**$**
Refundable realized capital gains tax on hand	10,397	-	11,169	-
Income taxes recoverable (payable)	4,924	-	-	(8,036)
	15,321	-	11,169	(8,036)
Future refundable unrealized capital gains tax on hand	7,368	-	7,181	-
Future income taxes – Issuance costs	965	-	-	-
Future income taxes – Investments	-	(7,164)	-	(6,935)
	8,333	(7,164)	7,181	(6,935)
	23,654	(7,164)	18,350	(14,971)

15 Cash flows

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

	2013	**2012**
	$	**$**
Decrease (increase) in accounts receivable	(514)	(255)
Decrease (increase) in income taxes receivable	(4,152)	(3,802)
Increase (decrease) in income taxes payable	(8,036)	(340)
Increase (decrease) in accounts payable	1,215	(3,335)
	(11,487)	(7,732)

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

16 Related party transactions

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

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

  A new five-year management agreement, effective January 1, 2013, provides for the invoicing of separate fees for the Desjardins caisse network's contribution in distributing the Company's shares. Under the new management agreement, certain governance expenses are now allocated to the Company. As consideration, the rate of annual management fees was reduced and may be revised in accordance with certain terms and conditions set out in the new agreement. As of January 1, 2013, negotiation fees are earned by DVC with a credit of an equal amount applied against the Company's management fees.

  Under this agreement, the Company undertook to pay management fees equal to 2.02% (2.25% in 2012) of the Company's annual average assets' value, less any amounts payable related to Investments impacting the Québec economy and Other investments. An adjustment is made to the management fee charged to the Company to avoid double billing relative to the Company's interest in some funds. This rate may be revised by the parties for fiscal 2014.

- The Company 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 the Company began operations, Desjardins Trust has represented the largest component of the Company's shareholder service expenses. The agreement was renewed at the same conditions until June 30, 2014 except for the fee rate, which was adjusted on July 1, 2013 and will continue to apply until December 31, 2014.

- The Company has centralized custody services for its assets with Desjardins Trust. The custody and administration agreement became effective on May 1, 2009. Its term is indefinite unless one or the other of the parties, on prior written notice of at least 90 days, decides to terminate it.

- The Company has appointed Fédération des caisses Desjardins du Québec to distribute its shares through the Desjardins caisse network. This agreement is effective for one year and will be automatically renewed each year at market conditions unless one of the parties gives written notice to the contrary three months before the expiry date of the agreement.

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

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

	2013	**2012**
	$	**$**
Balance sheets		
Caisse centrale Desjardins		
Cash	7,089	6,855
Other investments	4,266	4,165
Interest and dividends receivable on investments	35	35
Capital Desjardins inc.		
Other investments	9,623	11,543
Interest and dividends receivable on investments	70	91
Desjardins Venture Capital inc.		
Accounts payable	1,676	1,034
Desjardins Venture Capital L.P.		
Accounts payable	-	141
Notes payable and financial liabilities	12,903	10,921
Fédération des caisses Desjardins du Québec		
Accounts payable	-	15
Fiducie Desjardins		
Cash	2,327	542
Accounts payable	483	478
Desjardins Group Pension Plan		
Notes payable and financial liabilities	2,097	431

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

	2013 **$**	**2012** **$**
Statements of Earnings		
Caisse centrale Desjardins		
Interest	179	416
Realized gains (losses) on investments	(6,826)	4,971
Unrealized gains (losses) on investments	(309)	(450)
Capital Desjardins inc.		
Interest	384	448
Realized gains (losses) on investments	34	-
Unrealized gains (losses) on investments	(52)	542
Desjardins Venture Capital inc.		
Management fee	23,533	27,529
Desjardins Venture Capital L.P.		
Realized gains (losses) on investments	(128)	(223)
Unrealized gains (losses) on investments	(1,854)	1,262
Fédération des caisses Desjardins du Québec		
Other operating expenses	426	511
Fiducie Desjardins		
Shareholder services	1,257	1,336
Other operating expenses	110	112
Desjardins Group Pension Plan		
Unrealized gains (losses) on investments	(1,666)	(431)
Statements of Shareholders' Equity		
Desjardins caisse network		
Issuance costs	2,819	-

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

17 Financial instruments and associated risks

Financial instruments

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

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

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

				2013
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Investments impacting the Québec economy	1,535	-	732,372	733,907
Other investments	461,044	246,352	-	707,396
Cash	9,701	-	-	9,701
Amounts receivable on disposal of investments impacting the Québec economy	-	-	15,234	15,234
Notes payable and financial liabilities	-	-	(15,000)	(15,000)

				2012
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Investments impacting the Québec economy	1,991	-	657,054	659,045
Other investments	476,862	193,710	-	670,572
Cash	7,357	-	-	7,357
Amounts receivable on disposal of investments impacting the Québec economy	-	-	23,436	23,436
Notes payable and financial liabilities	-	-	(11,352)	(11,352)

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

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

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

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

				2013
	Investments impacting the Québec economy $	**Other investments $**	**Amounts receivable on disposal of investments impacting the Québec economy $**	**Notes payable and financial liabilities $**
Balance – December 31, 2012	657,054	-	23,436	(11,352)
Realized gains (losses)	10,218	-	1,502	-
Unrealized gains (losses)	29,184	-	-	(3,648)
Acquisitions / issuance	134,980	-	966	-
Disposals / repayments	(99,064)	-	(10,670)	-
Transfer to Level 1	-	-	-	-
Balance – December 31, 2013	732,372	-	15,234	(15,000)
Unrealized gains (losses) on investments, notes payable and financial liabilities held as at December 31, 2013	28,356	-	-	(3,648)

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

				2012
	Investments impacting the Québec economy $	**Other investments $**	**Amounts receivable on disposal of investments impacting the Québec economy $**	**Notes payable and financial liabilities $**
Balance – December 31, 2011	536,337	-	10,565	(14,335)
Realized gains (losses)	47,875	-	(824)	(222)
Unrealized gains (losses)	(6,556)	-	-	831
Acquisitions/issuance	230,526	-	18,298	-
Disposals/repayments	(151,128)	-	(4,603)	2,374
Transfer to Level 1	-	-	-	-
Balance – December 31, 2012	657,054	-	23,436	(11,352)
Unrealized gains (losses) on investments, notes payable and financial liabilities held as at December 31, 2012	30,536	-	-	679

Financial instruments and associated risks

The risks associated with financial instruments that affect the Company's financial position are discussed in detail in the audited sections "Market Risk," "Credit and Counterparty Risk" and "Liquidity Risk" of the Company's management discussion and analysis on pages 15 to 16 and are an integral part of these financial statements.

18 Comparative amounts

Certain comparative figures for 2012 have been reclassified to conform to current year presentation.