

Capital régional et coopératif Desjardins

Separate Financial Statements

June 30, 2023 and 2022

(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 present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins (CRCD) as at June 30, 2023 and December 31, 2022, and its financial performance and its cash flows for the six-month periods ended June 30, 2023 and 2022 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

CRCD's separate financial statements comprise:

- the balance sheets as at June 30, 2023 and December 31, 2022;
- the statements of comprehensive income for the six-month periods ended June 30, 2023 and 2022;
- the statements of changes in net assets for the six-month periods ended June 30, 2023 and 2022;
- the statements of cash flows for the six-month periods ended June 30, 2023 and 2022; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes to the separate financial statements. These disclosures are cross-referenced from the separate financial statements and are identified as audited.

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 separate financial statements* section of our report.

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

Independence

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

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Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management's Discussion and Analysis.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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 separate financial statements

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
August 17, 2023

¹ CPA auditor, public accountancy permit No. A117693

Balance Sheets

| (in thousands of Canadian dollars, except for number of common shares outstanding and net asset value per common share) | Notes | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|-------------------------------------------------------------------------------------------------------------------------|-----------|---------------------------------|-------------------------------------|
| ASSETS | | | |
| Investments impacting the Québec economy | 7 | 1,949,137 | 1,938,022 |
| Other investments | 8 | 595,151 | 561,112 |
| Intangible assets | 10 | 3,699 | 5,102 |
| Income taxes receivable | 17 | 35,696 | 38,034 |
| Accounts receivable | 11 | 28,053 | 29,967 |
| Cash | 12 | 15,623 | 5,824 |
| | | 2,627,359 | 2,578,061 |
| LIABILITIES | | | |
| Other investments - Obligations related to securities sold short | 8 | 18,995 | — |
| Financial liabilities | | — | 2,197 |
| Income taxes payable | 17 | 1,017 | 1,655 |
| Accounts payable | | 21,705 | 10,642 |
| Bank overdraft | 12 and 13 | — | 4,467 |
| | | 41,717 | 18,961 |
| NET ASSETS | 14 | 2,585,642 | 2,559,100 |
| NUMBER OF COMMON SHARES OUTSTANDING | | 145,665,734 | 148,098,572 |
| NET ASSET VALUE PER COMMON SHARE | | 17.75 | 17.28 |

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

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

(signed) Bernard Bolduc, B.A.A. Finance, ICD.D., Director

(signed) Jean-Guy Sénécal, FCPA, B.A.A., Director

Statements of Comprehensive Income

For the six-month periods ended June 30

| (in thousands of Canadian dollars, except for weighted average number of common shares and net earnings per common share) | Notes | 2023 \$ | 2022 \$ |
|---------------------------------------------------------------------------------------------------------------------------|---------|--------------------|--------------------|
| REVENUE | | | |
| Interest | 7 and 8 | 23,292 | 19,424 |
| Dividends and distributions | | 11,015 | 12,348 |
| Administrative charges | | 56 | 65 |
| | | 34,363 | 31,837 |
| GAINS (LOSSES) ON INVESTMENTS | | | |
| Realized | | 43,238 | (40,188) |
| Unrealized | | 17,608 | (63,812) |
| | | 60,846 | (104,000) |
| Financial Fees | 13 | (761) | (719) |
| TOTAL NET REVENUE AND GAINS (LOSSES) ON INVESTMENTS | | 94,448 | (72,882) |
| OPERATING EXPENSES | | | |
| Management fees | | 14,083 | 14,006 |
| Other operating expenses | 16 | 5,173 | 5,620 |
| Shareholder services | 16 | 6,292 | 6,403 |
| | | 25,548 | 26,029 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | | 68,900 | (98,911) |
| Income taxes (recovery) | 17 | 354 | (3,106) |
| NET EARNINGS (NET LOSSES) FOR THE PERIOD | | 68,546 | (95,805) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES | | 146,588,432 | 143,908,455 |
| NET EARNINGS (NET LOSSES) PER COMMON SHARE | | 0.47 | (0.67) |

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

Statements of Changes in Net Assets

For the six-month periods ended June 30

| (in thousands of Canadian dollars) | Share capital (note 14) | | | | | | Retained earnings | Net assets |
|--------------------------------------------|----------------------------------|------------------|----------------------------------|----------------|--------------------|------------------|-------------------|------------------|
| | "Issuance" Shares ⁽¹⁾ | | "Exchange" Shares ⁽¹⁾ | | Total | | | |
| | Number | \$ | Number | \$ | Number | \$ | | |
| BALANCE - DECEMBER 31, 2022 | 125,467,215 | 1,616,925 | 22,631,357 | 347,006 | 148,098,572 | 1,963,931 | 595,169 | 2,559,100 |
| Net earnings for the period | — | — | — | — | — | — | 68,546 | 68,546 |
| Share capital transactions | | | | | | | | |
| Issuance of common shares | (406) | (7) | — | — | (406) | (7) | — | (7) |
| Redemption of common shares ⁽²⁾ | (2,393,369) | (26,426) | (39,063) | (600) | (2,432,432) | (27,026) | (14,971) | (41,997) |
| Exchange of common shares | (2,895,253) | (31,028) | 2,895,253 | 49,885 | — | 18,857 | (18,857) | — |
| BALANCE - JUNE 30, 2023 | 120,178,187 | 1,559,464 | 25,487,547 | 396,291 | 145,665,734 | 1,955,755 | 629,887 | 2,585,642 |
| BALANCE - DECEMBER 31, 2021 | 125,101,939 | 1,561,304 | 19,857,252 | 298,301 | 144,959,191 | 1,859,605 | 735,098 | 2,594,703 |
| Net loss for the period | — | — | — | — | — | — | (95,805) | (95,805) |
| Share capital transactions | | | | | | | | |
| Issuance of common shares | 10,767 | 189 | — | — | 10,767 | 189 | — | 189 |
| Redemption of common shares ⁽²⁾ | (2,321,047) | (25,868) | (34,562) | (521) | (2,355,609) | (26,389) | (15,623) | (42,012) |
| Exchange of common shares | (2,853,370) | (29,599) | 2,853,370 | 49,905 | — | 20,306 | (20,306) | — |
| BALANCE - JUNE 30, 2022 | 119,938,289 | 1,506,026 | 22,676,060 | 347,685 | 142,614,349 | 1,853,711 | 603,364 | 2,457,075 |

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

⁽²⁾ This data does not include the redemption requests made within 30 days of subscription.

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

Statements of Cash Flows

For the six-month periods ended June 30

| (in thousands of Canadian dollars) | Notes | 2023 \$ | 2022 \$ |
|----------------------------------------------------------------------------|-------|-----------------|------------------|
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | | | |
| Net earnings (net loss) for the period | | 68,546 | (95,805) |
| Non-cash items: | | | |
| Losses (gains) on investments | | (60,846) | 104,000 |
| Amortization of premiums and discounts on Other investments | | (1,307) | (427) |
| Amortization of intangible assets | | 1,571 | 1,577 |
| Deferred taxes | | (4,130) | 177 |
| Capitalized interest and other non-cash items | | (7,665) | (8,054) |
| Changes in operating assets and liabilities | | | |
| Income taxes | | 5,830 | (9,488) |
| Accounts receivable | | (11,287) | (2,634) |
| Accounts payable | | 10,180 | (2,943) |
| Acquisition of Investments impacting the Québec economy | | (85,216) | (219,683) |
| Proceeds from disposals of Investments impacting the Québec economy | | 145,247 | 49,423 |
| Acquisition of Other investments | | (139,417) | (452,135) |
| Proceeds on disposal of Other investments | | 135,430 | 458,713 |
| | | 56,936 | (177,279) |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | | |
| Acquisition of intangible assets | | (168) | (1,002) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | | |
| Issuance of common shares | | (7) | 189 |
| Redemption of common shares | | (41,997) | (42,012) |
| | | (42,004) | (41,823) |
| Net change in cash and cash equivalents during the period | | 14,764 | (220,104) |
| Cash and cash equivalents – Beginning of period | | 1,456 | 26,295 |
| CASH AND CASH EQUIVALENTS – END OF PERIOD | 12 | 16,220 | (193,809) |
| Supplemental information about cash flows from operating activities | | | |
| Interest received | | 17,828 | 12,746 |
| Dividends and distributions received | | 9,140 | 8,133 |
| Income taxes received (paid) | | 1,373 | (6,205) |

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

Notes to Separate Financial Statements

Note 1 – Governing statute, administration and investments

Governing statute

Capital régional et coopératif Desjardins (“CRCD”) is constituted by an Act assented to by 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:

- Six members are appointed by the president of the Fédération des caisses Desjardins du Québec;
- Three members are elected by the general meeting of shareholders;
- Three members are appointed by the nine previously appointed members, including one considered to be representative of the eligible cooperatives and another of the eligible entities set out in the Act; and
- One Desjardins Group Relations director is appointed by the twelve directors.

Investments

CRCD may make investments with or without guarantees or suretyships, 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. The investment is generally planned for a period of three to twenty years.

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. 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 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.

CRCD’s eligible investments, as defined in the Act, must represent on average at least 65% of CRCD’s average net assets of the preceding year.

Furthermore, a portion representing at least 35% of that percentage 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 at the end of the fiscal year, the authorized issue of capital could be reduced for the capitalization period following the end of this fiscal year.

Note 2 – Basis of presentation

Statement of compliance

CRCD has prepared its separate financial statements (the “financial statements”) in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were approved by the Board of Directors on August 17, 2023.

Basis of measurement

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

Investment entity

CRCD has several shareholders that are not related 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 the net assets, in accordance with the puttable instrument exemption under IAS 32, *Financial Instruments: Presentation*.

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

Presentation and functional currency

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

Note 3 – Material accounting policies

a) New accounting standard adopted

An IASB publication has resulted in amendments to some paragraphs of the standard IAS 1, *Presentation of financial statements*. These changes include the requirement for the entities to provide material disclosures about their accounting policies rather than their significant accounting policies. The amendments to the standard have been adopted by CRCD as of January 1st, 2023.

b) Financial instruments

CRCD accounts for its financial instruments at fair value on initial recognition. Purchases and sales of financial assets are recognized at the transaction date.

Classification and measurement

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

Contractual cash flow characteristics

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

Business model

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

- Held to collect contractual cash flows: The objective of holding financial assets is to collect contractual cash flows;
- Held to collect contractual cash flows and for sale: The objective is achieved by collecting contractual cash flows and by selling financial assets; and
- 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 can be summarized as follows :

- Investments impacting the Québec economy, Other investments and amounts receivable on disposals of Investments impacting the Québec economy are classified as at fair value through profit or loss since they are held according to an economic model whose aim is to manage and measure investment performance on a fair value basis.
- Cash, and accounts receivable and amounts receivable on disposal of Other investments are measured at amortized cost, which approximates their fair value, since they are held under a business model whose objective is to collect contractual cash flows and they satisfy the criteria of the cash flow characteristics test, that is, they consist solely of payments of principal and interest.
- Accounts payable, bank overdraft and amounts payable on acquisitions of Other investments are classified and measured at amortized cost which approximates their fair value, while financial liabilities and obligations related to securities sold short are designated at fair value through profit or loss. Financial liabilities are derecognized when the liability is extinguished, which is when the obligation specified in the contract is discharged, cancelled, or expires.

Note 3 – Material accounting policies (*continued*)

c) 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 the fair value.

Fair value of assets and liabilities not traded in a market

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

Loans and advances, non-participating shares

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

Participating shares

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

Where the price of a recent arm's length market transaction between knowledgeable, willing parties is available, this valuation technique is used. It may also be appropriate to use a technique based on a third-party purchase offer when deemed legit 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.

Note 3 – Material accounting policies (*continued*)

b) Fair value measurement (*continued*)

Canadian equities funds, Real estate funds, Infrastructure funds and Market neutral equity funds

Interests in Canadian equities funds, Real estate funds, Infrastructure funds and Market neutral equity funds are recorded at their fair value. Fair value represents the net assets per unit as determined by the funds as at the balance sheet date.

Guarantees and suretyships

When it is likely that CRCDC will be required to make a payment under a guarantee or a suretyship it has provided, an expected credit losses equal to the estimated amount payable is recognized as a liability.

Note

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

Obligations related to securities sold short

Securities sold short which represent CRCDC's obligation to deliver securities that were not owned at the time of sale, are recorded as liabilities and measured at fair value. Realized and unrealized gains and losses are recorded in profit or loss under gains (losses) on investments at the statement of comprehensive income.

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 particularly, the debtor's credit risk. Typically, estimating the amounts receivable and the timing of their collection depends on whether specified future events occur or conditions are met.

Note 3 – Material accounting policies (continued)

d) Share capital

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

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

e) 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.

Gains and losses

Realized gains and losses on investments are recognized at the time of the 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 financial liability are recognized when paid and represent the difference between the amount CRCD paid to settle the 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.

Note 3 – Material accounting policies (*continued*)

f) Foreign exchange contracts

As part of its investment activities, 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.

g) Taxes

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

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. This expected tax refund is recognized as an asset on the balance sheet. 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).

Note 4 – Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires CRCD to make judgments, estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenue and expenses and the related disclosures. Changes in assumptions can have a material effect on the financial statements for the period in which those assumptions were changed. CRCD considers the assumptions used to be appropriate and accordingly that its 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 valuers relying on a structured process composed of several validation and review stages. The Portfolio Valuation Committee's role, whose members consist mainly of independent qualified valuers, consists in performing semi-annual reviews of all relevant information regarding the valuations of CRCD's portfolio of Investments impacting the Québec economy to provide reasonable assurance that the valuation process meets regulatory requirements. In addition, the Audit and Risk Management Committee monitors operational risk related to non-compliance with the portfolio valuation methodology and informs the Portfolio Valuation Committee in case of non-conformity.

Note 5 – Accounting standards issued but not yet adopted

No accounting standards issued by the IASB and not yet effective as at June 30, 2023 could have a material impact on CRCD's financial statements.

Note 6 – Risks associated with financial instruments

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

Note 7 – Investments impacting the Québec economy

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

| | As at June 30, 2023 | | |
|--------------------|---------------------|---------------------------------|------------------|
| | Cost \$ | Unrealized gain (loss) \$ | Fair value \$ |
| Unsecured | | | |
| Common shares | 545,948 | 130,502 | 676,450 |
| Preferred shares | 355,643 | 76,742 | 432,385 |
| Fund units | 294,079 | 114,035 | 408,114 |
| Loans and advances | 451,939 | (28,346) | 423,593 |
| Note | 534 | 1,230 | 1,764 |
| Secured | | | |
| Loans and advances | 9,623 | (2,792) | 6,831 |
| Total | 1,657,766 | 291,371 | 1,949,137 |

| | As at December 31, 2022 | | |
|--------------------|-------------------------|---------------------------------|------------------|
| | Cost \$ | Unrealized gain (loss) \$ | Fair value \$ |
| Unsecured | | | |
| Common shares | 537,237 | 90,672 | 627,909 |
| Preferred shares | 333,285 | 89,565 | 422,850 |
| Fund units | 282,798 | 118,021 | 400,819 |
| Loans and advances | 494,483 | (17,294) | 477,189 |
| Note | 480 | 1,666 | 2,146 |
| Secured | | | |
| Loans and advances | 10,190 | (3,081) | 7,109 |
| Total | 1,658,473 | 279,549 | 1,938,022 |

Investments impacting the Québec economy include investments valued at fair value in U.S. dollars for an amount of \$87.1 million (\$74.2 million as at December 31, 2022) and in euros for an amount of \$29.0 million (\$24.5 million as at December 31, 2022).

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 8.6% (7.5% as at December 31, 2022). The interest rate is fixed for substantially all interest-bearing loans and advances. For the six-month period ended June 30, 2023, interest income recognized at the contractual rate amounted to \$19.4 million (\$15.9 million for the six-month period ended June 30, 2022). Substantially all of the change in the fair value of loans and advances resulted from changes in the rates charged on these types of product and to a lesser extent, changes in credit risk.

Loans and advances have an annual residual maturity of 5.1 years (4.8 years as at December 31, 2022) and the fair market value of the current portion maturing in less than one year is \$11.8 million (\$85.5 million as at December 31, 2022).

Note 7 – Investments impacting the Québec economy (continued)

Allocation of investments and funds committed by segment

Investments and funds committed are allocated by segment as follows:

| Segment | As at June 30, 2023 | | | | |
|--------------------------------------------------|---------------------|----------------|------------------------------------|----------------|------------------|
| | Manufacturing \$ | Services \$ | Technological innovations \$ | Funds \$ | Total \$ |
| Investments at cost | 653,214 | 559,570 | 150,369 | 294,613 | 1,657,766 |
| Unrealized gain (loss) | 125,465 | 60,776 | (10,135) | 115,265 | 291,371 |
| Fair value | 778,679 | 620,346 | 140,234 | 409,878 | 1,949,137 |
| Funds committed but not disbursed ⁽¹⁾ | 16,401 | 37,088 | 1,711 | 117,211 | 172,411 |
| Guarantees and suretyships ^{(1) (2)} | 3,500 | 6,233 | — | — | 9,733 |
| Total | 798,580 | 663,667 | 141,945 | 527,089 | 2,131,281 |

| Segment | As at December 31, 2022 | | | | |
|--------------------------------------------------|-------------------------|----------------|------------------------------------|----------------|------------------|
| | Manufacturing \$ | Services \$ | Technological innovations \$ | Funds \$ | Total \$ |
| Investments at cost | 693,215 | 546,258 | 135,722 | 283,278 | 1,658,473 |
| Unrealized gain (loss) | 127,133 | 46,841 | (14,112) | 119,687 | 279,549 |
| Fair value | 820,348 | 593,099 | 121,610 | 402,965 | 1,938,022 |
| Funds committed but not disbursed ⁽¹⁾ | 23,111 | 6,499 | 14,300 | 168,619 | 212,529 |
| Guarantees and suretyships ^{(1) (2)} | 3,500 | 6,233 | — | — | 9,733 |
| Total | 846,959 | 605,831 | 135,910 | 571,584 | 2,160,284 |

⁽¹⁾ Funds committed but not disbursed as well as guarantees and suretyships are not included in the balance sheets.

⁽²⁾ Under section 22 of its constituting act, when CRCD makes an investment in the form of a guarantee or a suretyship, it must establish and maintain for the term of this investment a reserve equivalent to not less than 50% of its value. This reserve is funded from the Other investments.

Guarantees and suretyships

As at June 30, 2023 and December 31, 2022, CRCD had provided guarantees totalling \$9.7 million in respect of loans to companies in which CRCD has invested. Such guarantees may be enforced only in the event that a company fails to meet its contractual obligations. The term of these guarantees as of granted date is four to five years (four to five years as at December 31, 2022).

As at June 30, 2023 and December 31, 2022, no amount has been recognized in liabilities as a provision for expected credit losses arising from any such guarantees.

Note 7 – Investments impacting the Québec economy (continued)

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 CRCDC 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:

| 2023 (6 months) \$ | 2024 \$ | 2025 \$ | 2026 \$ | 2027 and thereafter \$ | Total \$ |
|--------------------------|------------|------------|------------|------------------------------|-------------|
| 106,199 | 14,595 | 21,647 | 25,520 | 4,450 | 172,411 |

Investments in subsidiaries and associates

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

| | As at June 30, 2023 | | As at December 31, 2022 | |
|---------------------|---------------------|------------------|-------------------------|------------------|
| | Number | Fair value \$ | Number | Fair value \$ |
| Subsidiaries | | | | |
| Partner companies | 7 | 302,490 | 7 | 322,905 |
| Associates | | | | |
| Partner companies | 53 | 629,221 | 53 | 606,957 |
| Funds | 9 | 372,675 | 9 | 362,576 |

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 consist of common shares and preferred shares. The percentage of equity securities held by CRCDC in each of the partner companies is equal to or over 50% for the subsidiaries, and between 2% and 45% as at June 30, 2023 and December 31, 2022, for associates. As at June 30, 2023, the voting rights are equivalent to the proportion of interests held except for two subsidiaries and nine associates (two subsidiaries and four associates as at December 31, 2022).

As at June 30, 2023 and December 31, 2022, the interests in the funds were made up of units and the holding percentage varied from 13% to 95%.

Note 8 – Other investments

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

| | As at June 30, 2023 | | |
|----------------------------------------------|---------------------|---------------------------------|------------------|
| | Cost \$ | Unrealized gain (loss) \$ | Fair value \$ |
| Assets - Other investments | | | |
| Bonds | | | |
| Federal or guaranteed | 140,372 | (4,674) | 135,698 |
| Provincial, municipal or guaranteed | 154,152 | (6,880) | 147,272 |
| | 294,524 | (11,554) | 282,970 |
| Money market instruments ⁽¹⁾ | 1,077 | — | 1,077 |
| Foreign exchange contracts ⁽²⁾ | — | (71) | (71) |
| Canadian equity funds | 46,639 | 9,085 | 55,724 |
| Real estate funds | 102,483 | 9,219 | 111,702 |
| Infrastructure funds | 47,383 | 2,958 | 50,341 |
| Market neutral equity funds | 72,048 | 2,336 | 74,384 |
| Listed securities | 18,683 | 341 | 19,024 |
| Total | 582,837 | 12,314 | 595,151 |
| Liabilities - Other investments | | | |
| Obligations related to securities sold short | (18,714) | (281) | (18,995) |
| Total | (18,714) | (281) | (18,995) |

| | As at December 31, 2022 | | |
|-------------------------------------------|-------------------------|---------------------------------|------------------|
| | Cost \$ | Unrealized gain (loss) \$ | Fair value \$ |
| Bonds | | | |
| Federal or guaranteed | 136,955 | (5,064) | 131,891 |
| Provincial, municipal or guaranteed | 154,424 | (12,253) | 142,171 |
| | 291,379 | (17,317) | 274,062 |
| Money market instruments ⁽¹⁾ | 780 | — | 780 |
| Foreign exchange contracts ⁽²⁾ | — | 369 | 369 |
| Canadian equity funds | 51,700 | 5,982 | 57,682 |
| Real estate funds | 111,948 | 14,929 | 126,877 |
| Infrastructure funds | 27,311 | 1,566 | 28,877 |
| Market neutral equity funds | 71,747 | 718 | 72,465 |
| Total | 554,865 | 6,247 | 561,112 |

Note 8 – Other investments (continued)

Breakdown of bonds by maturity date

| | As at June 30, 2023 | | | |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-------------|
| | Under 1 year \$ | 1 to 5 years \$ | Over 5 years \$ | Total \$ |
| Cost | — | — | 294,524 | 294,524 |
| Par value | — | — | 333,577 | 333,577 |
| Fair value | — | — | 282,970 | 282,970 |
| Average nominal rate ⁽³⁾ | — | — | 2.08% | 2.08% |
| Average effective rate | — | — | 3.36% | 3.36% |

| | As at December 31, 2022 | | | |
|-------------------------------------|-------------------------|-----------------------|-----------------------|-------------|
| | Under 1 year \$ | 1 to 5 years \$ | Over 5 years \$ | Total \$ |
| Cost | 274 | — | 291,105 | 291,379 |
| Par value | 275 | — | 326,197 | 326,472 |
| Fair value | 274 | — | 273,788 | 274,062 |
| Average nominal rate ⁽³⁾ | 1.75% | — | 2.22% | 2.22% |
| Average effective rate | 4.03% | — | 3.31% | 3.31% |

⁽¹⁾ As at June 30, 2023 and December 31, 2022, money market instruments primarily consisted of Treasury bills, commercial paper and bankers' acceptances.

⁽²⁾ Foreign exchange contracts to sell US\$66.5 million (US\$80.0 million as at December 31, 2022) and €22.3 million (€18.7 million as at December 31, 2022) have six-month maturities.

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

Other investments include investments which represent foreign currency exposure with a fair value of \$79.4 million (\$62.6 million as at December 31, 2022).

For the six-month period ended June 30, 2023, interest income from bonds recognized at the effective rate amounted to \$4.8 million (\$3.4 million for the six-month period ended June 30, 2022).

Financial assets pledged as collateral

In the course of its operations related to obligations related to securities sold short, financial assets in the form of bonds are pledged as collateral. The financial assets pledged as collateral with a fair value of \$22.2 million as of June 30, 2023 (nil as of December 31, 2022) are not derecognised as substantially all the risks and rewards of the the financial assets are retained.

Funds committed but not disbursed

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

| 2023 (6 months) \$ | 2024 \$ | 2025 \$ | 2026 \$ | 2027 and thereafter \$ | Total \$ |
|--------------------------|------------|------------|------------|------------------------------|-------------|
| 24,869 | — | — | — | — | 24,869 |

Note 9 – Fair value of financial instruments

Hierarchy levels of financial instruments measured at fair value

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

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

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

| | As at June 30, 2023 | | | |
|----------------------------------------------------------------------------|---------------------|---------------|------------------|------------------|
| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
| Financial assets | | | | |
| Investments impacting the Québec economy | 18,168 | — | 1,930,969 | 1,949,137 |
| Other investments | 431,542 | 1,566 | 162,043 | 595,151 |
| Amounts receivable on disposal of Investments impacting the Québec economy | — | — | 4,970 | 4,970 |
| Total financial assets | 449,710 | 1,566 | 2,097,982 | 2,549,258 |
| Financial liabilities | | | | |
| Other investments - Obligations related to securities sold short | (18,995) | — | — | (18,995) |
| Total financial liabilities | (18,995) | — | — | (18,995) |

| | As at December 31, 2022 | | | |
|----------------------------------------------------------------------------|-------------------------|---------------|------------------|------------------|
| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
| Financial assets | | | | |
| Investments impacting the Québec economy | 16,143 | — | 1,921,879 | 1,938,022 |
| Other investments | 403,406 | 1,952 | 155,754 | 561,112 |
| Amounts receivable on disposal of Investments impacting the Québec economy | — | — | 18,593 | 18,593 |
| Total financial assets | 419,549 | 1,952 | 2,096,226 | 2,517,727 |
| Financial liabilities | | | | |
| Other financial liabilities | — | — | (2,197) | (2,197) |
| Total financial liabilities | — | — | (2,197) | (2,197) |

Other 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.

Transfers between hierarchy levels of financial instruments measured at fair value are made at the reporting date. No transfer between hierarchy levels took place during the six-month period ended June 30, 2023 (no transfer during the year ended December 31, 2022).

Note 9 – Fair value of financial instruments (continued)

Level 3 financial instruments

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

| | For the six-month period ended June 30, 2023 | | | |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------|
| | Investments impacting the Québec economy \$ | Other investments \$ | Amounts receivable on disposal of Investments impacting the Québec economy \$ | Other financial liabilities \$ |
| Fair value as at December 31, 2022 | 1,921,879 | 155,754 | 18,593 | (2,197) |
| Realized gains (losses) | 44,187 | 1,535 | 7,884 | (1,085) |
| Unrealized gains (losses) | 10,182 | (4,318) | — | — |
| Acquisitions/issuances | 92,349 | 21,072 | 1,550 | — |
| Disposals/repayments | (137,628) | (12,000) | (23,057) | 3,282 |
| Fair value as at June 30, 2023 | 1,930,969 | 162,043 | 4,970 | — |
| Unrealized gains (losses) in comprehensive income on investments and financial liabilities as at June 30, 2023 | 30,308 | (4,318) | — | — |

| | For the six-month period ended June 30, 2022 | | | |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------|
| | Investments impacting the Québec economy \$ | Other investments \$ | Amounts receivable on disposal of Investments impacting the Québec economy \$ | Other financial liabilities \$ |
| Fair value as at December 31, 2021 | 1,767,985 | 79,192 | 9,668 | (1,210) |
| Realized gains (losses) | (28,735) | — | 2,275 | 349 |
| Unrealized gains (losses) | (22,187) | 8,783 | — | — |
| Acquisitions/issuances | 248,809 | 56,281 | — | — |
| Disposals/repayment | (72,981) | — | (1,257) | (698) |
| Fair value as at June 30, 2022 | 1,892,891 | 144,256 | 10,686 | (1,559) |
| Unrealized gains (losses) in comprehensive income on investments and financial liabilities as at June 30 2022 | (59,719) | 8,783 | — | — |

Note 9 – Fair value of financial instruments (continued)

Level 3 financial instruments (continued)

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

| | As at June 30, 2023 | | | |
|-------------------------------------------------------------------------------------------|---------------------|---------------------------------|-------------------------------------------------------------------------|------------------------------------------------|
| | Fair value \$ | Main valuation techniques | Unobservable inputs | Input value range (weighted average) |
| Investment impacting the Québec economy | | | | |
| Loans and advances | 269,852 | Discounted cash flows | Required return | 6.3% to 15.7% (9.2%) |
| | 39,557 | Other ⁽³⁾ | — | — |
| Non-participating shares | 114,195 | Discounted cash flows | Required return | 6.4% to 9.6% (9.1%) |
| Participating controlling shares | 273,565 | Capitalized cash flows | Capitalization rate % of representative cash flows ⁽¹⁾ | 9.2% to 11.6% (10.7%) 5.5% to 13.8% (11.3%) |
| | 86,210 | Restated net assets | Entity's net assets | (2) |
| Participating non-controlling shares | 326,157 | Capitalized cash flows | Capitalization rate % of representative cash flows ⁽¹⁾ | 8.3% to 20.6% (13.4%) 6.0% to 39.5% (14.7%) |
| | 149,926 | Recent transactions and bids | Paid/bid price | — |
| | 126,270 | Restated net assets | Entity's net assets | (2) |
| | 135,359 | Other ⁽³⁾ | — | — |
| Note | 1,764 | Restated net assets | Fund's net assets | (4) |
| Fund units | 408,114 | Restated net assets | Fund's net assets | (2) |
| | 1,930,969 | | | |
| Other investments – Real estate funds and Infrastructure funds | 162,043 | Restated net assets | Fund's net assets | (2) |
| Amounts receivable on disposal of Investments impacting the Québec economy | 4,970 | Discounted cash flows | Required return | 0.0% to 4.5% (3.9%) |

Note 9 – Fair value of financial instruments (continued)

| | As at December 31, 2022 | | | |
|-------------------------------------------------------------------------------------------|-------------------------|---------------------------------|-------------------------------------------------------------------------|------------------------------------------|
| | Fair value \$ | Main valuation techniques | Unobservable inputs | Input value range (weighted average) |
| Investment impacting the Québec economy | | | | |
| Loans and advances | 287,560 | Discounted cash flows | Required return | 6.4% to 15.0% (10.5%) |
| | 8,316 | Other ⁽³⁾ | — | — |
| Non-participating shares | 121,728 | Discounted cash flows | Required return | 7.5% to 9.5% (9.1%) |
| Participating controlling shares | 300,921 | Capitalized cash flows | Capitalization rate % of representative cash flows ⁽¹⁾ | 9.3% to 12.1% (10.9%) |
| | 81,599 | Restated net assets | Entity's net assets | 11.5% to 15.0% (12.8%) ⁽²⁾ |
| Participating non-controlling shares | 289,027 | Capitalized cash flows | Capitalization rate % of representative cash flows ⁽¹⁾ | 8.4% to 20.6% (11.9%) |
| | 227,159 | Recent transactions and bids | Paid/bid price | 5.6% to 41.1% (14.7%) |
| | 135,410 | Restated net assets | Entity's net assets | — ⁽²⁾ |
| | 67,194 | Other ⁽³⁾ | — | |
| Note | 2,146 | Restated net assets | Fund's net assets | ⁽⁴⁾ |
| Fund units | 400,819 | Restated net assets | Fund's net assets | ⁽²⁾ |
| | 1,921,879 | | | |
| Other investments – Real estate funds | 155,754 | Restated net assets | Fund's net assets | ⁽²⁾ |
| Amounts receivable on disposal of Investments impacting the Québec economy | 18,593 | Discounted cash flows | Required return | 4.0% to 8.0% (6.5%) |
| Financial liabilities | (2,197) | 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.

Note 9 – Fair value of financial instruments (continued)

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 financial statements are appropriate, if different assumptions were used for unobservable inputs, the results could be different.

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

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

Participating shares – Capitalized cash flows

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

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

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|--------------------------------------|---------------------------------|-------------------------------------|
| Participating controlling shares | +/- 0.3% | +/- 0.4% |
| Participating non-controlling shares | +/- 0.5% | +/- 0.4% |

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

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.

Note 9 – Fair value of financial instruments (continued)

Sensitivity of fair value to unobservable inputs (continued)

Fund units – Restated net assets

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

Other valuation techniques

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

Note 10 – Intangible assets

Intangible assets primarily consists of costs relating to the development of applications to provide services to shareholders.

These costs are capitalized when the application's development phase begins. The costs incurred prior to this phase are expensed. Intangible assets are amortized on a three year period using a straight line method, as per their estimated useful lives.

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|---------------------------|---------------------------------|-------------------------------------|
| Cost | 13,415 | 13,247 |
| Accumulated depreciation | (9,716) | (8,145) |
| Net carrying value | 3,699 | 5,102 |

Note 11 – Accounts receivable

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|----------------------------------------------------------------------------|---------------------------------|-------------------------------------|
| Interest, dividends and distributions receivable on investments | 22,141 | 10,772 |
| Amounts receivable on disposal of Investments impacting the Québec economy | 4,970 | 18,593 |
| Amounts receivable on disposal of Other investments | 423 | — |
| Other | 519 | 602 |
| Total | 28,053 | 29,967 |

The changes in credit risk do not have a significant impact on the fair value of amounts receivable on disposal of investments impacting the Québec economy. These amounts receivable include amounts denominated in U.S. dollars for \$2,4 million (\$16,8 million as at December 31, 2022).

Based on the information available as at the reporting date and the assumptions made as to the timing of the collection, CRCD expects to collect accounts receivable with a fair value of \$25.1 million (\$16.8 million as at December 31, 2022) no later than 12 months after the reporting date.

Note 12 – Cash and cash equivalents

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

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|--------------------------|---------------------------------|-------------------------------------|
| Cash | 15,623 | 5,824 |
| Bank overdraft | — | (4,467) |
| Money market instruments | 597 | 99 |
| Total | 16,220 | 1,456 |

As at June 30, 2023, the cash includes an amount of \$1.0 million in trust (\$0.1 million as at December 31, 2022).

Note 13 – Line of credit

As at June 30, 2023, CRCD had an authorized line of credit of \$300 million (\$300 million December 31, 2022) with the Fédération des caisses Desjardins du Québec (FCDQ), bearing interest at the offered rate of Desjardins plus 0.5% as at June 30, 2023 and December 31, 2022 and renewable annually. The line of credit was used up to an amount of \$71.7 million during the six-month period ended June 30, 2023 (\$223.6 million during the period ended 2022). As at June 30, 2023, no amount was drawn down on this credit line (\$4.5 million as at December 31, 2022). As at June 30, 2023 and December 31, 2022, an amount of \$6.2 million was reserved in the form of a letter of credit in connection with the guarantees and suretyships.

Note 14 – Share capital

Authorized

CRCD's share capital consists of two categories of share, either Class A "Issuance" and Class B "Exchange". These common shares are issued without par value, participating, voting, with the right to elect directors to the Board of Directors, redeemable under certain conditions prescribed by the Act.

On March 26, 2021, the Government of Québec authorized CRCD to issue Class A "Issuance" shares for a maximum annual amount of \$140 million for the capitalization periods ending February 28, 2022 and February 28, 2023 and also extended, for the same periods, the share exchange program for Class B "Exchange" shares for a maximum authorized annual amount of \$50 million.

These exceptional capitalization measures came to an end on February 28, 2023. Thus, for the 2023 issue, CRCD is authorized to raise almost \$59.8 million, an amount equivalent to the cost of redemptions made during the 2022 issue, with a provincial 30% tax credit. The share exchange program was not renewed in 2023.

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

Issued

The net assets of CRCD as at June 30, 2023 totalled \$2,585.6 million broken down by issue as follows:

| Issue | Balance \$M* | | | Eligible for redemption |
|-----------------------|-------------------|-------------------|----------------|-------------------------|
| | "Issuance" Shares | "Exchange" Shares | Total | |
| 2002 to June 2016 | 1,008.1 | — | 1,008.1 | Today |
| July to November 2016 | 182.1 | — | 182.1 | July to November 2023 |
| 2017 | 171.5 | — | 171.5 | 2024 |
| 2018 | 167.8 | 119.2 | 287.0 | 2025 |
| 2019 | 154.0 | 114.3 | 268.3 | 2026 |
| 2020 | 164.1 | 117.0 | 281.1 | 2027 |
| 2021 | 141.6 | 50.5 | 192.1 | 2028 |
| 2022 | 144.0 | 51.4 | 195.4 | 2029 |
| Net assets | 2,133.2 | 452.4 | 2,585.6 | |

* Calculated as net asset value per share as at June 30, 2023.

Note 15 – 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 14.

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

Note 16 – Expenses

| | For the six-month periods ended | |
|----------------------------------------------------------------------|---------------------------------|--------------|
| | 2023 | 2022 |
| | \$ | \$ |
| Other operating expenses | | |
| IT expenses | 3,813 | 4,650 |
| Professional services fees | 153 | 403 |
| Asset management fees | 216 | — |
| Compensation of members of the Board of Directors and its committees | 358 | 349 |
| Audit fees | 100 | 96 |
| Custodial and trustee fees | 58 | 62 |
| Other expenses | 475 | 60 |
| Total | 5,173 | 5,620 |
| Shareholder services | | |
| Trustee fees (registration) | 1,232 | 1,133 |
| Reporting to shareholders | 397 | 431 |
| Share distribution fees | 2,976 | 2,650 |
| IT expenses | 1,687 | 2,104 |
| Other expenses | — | 85 |
| Total | 6,292 | 6,403 |

Note 17 – Income taxes

Income tax expense (recovery)

Income tax expense is detailed as follows:

| | For the six-month periods ended June 30 | |
|--------------|--------------------------------------------|----------------|
| | 2023 \$ | 2022 \$ |
| Current | 4,484 | (3,283) |
| Deferred | (4,130) | 177 |
| Total | 354 | (3,106) |

Reconciliation of the income tax rate

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

| | For the six-month periods ended June 30 | |
|-----------------------------------------------------------------------------------------------|--------------------------------------------|----------------|
| | 2023 \$ | 2022 \$ |
| Income taxes at the combined basic tax rate of 39.5% in 2023 and 2022 | 27,216 | (39,070) |
| Permanent differences between earnings before income taxes and taxable income and other items | | |
| Realized and unrealized losses (gains) on investments | (21,578) | 41,976 |
| Non-taxable dividends | (3,299) | (2,928) |
| Other | (1,985) | (3,084) |
| Total | 354 | (3,106) |

Note 17 – Income taxes (continued)

Income tax balance

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

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|--------------------------|---------------------------------|-------------------------------------|
| Assets | | |
| Refundable tax on hand | 33,221 | 29,249 |
| Income taxes recoverable | — | 8,785 |
| Deferred taxes | 2,475 | — |
| Total | 35,696 | 38,034 |
| Liabilities | | |
| Income taxes payable | (1,017) | — |
| Deferred taxes | — | (1,655) |
| Total | (1,017) | (1,655) |

Deferred tax assets (liabilities) are detailed as follows:

| | As at June 30, 2023 \$ | As at December 31, 2022 \$ |
|---------------------------------------------------------------------------------------------|---------------------------------|-------------------------------------|
| Deferred taxes – Share issue expenses and Share distribution fees | 3,820 | 3,639 |
| Deferred taxes – Amounts receivable on disposal of Investments impacting the Québec economy | — | (4,261) |
| Deferred taxes – Other | (1,345) | (1,033) |
| Total deferred tax assets (liabilities) | 2,475 | (1,655) |

CRCD expects to receive \$0.3 million (\$10.3 million receivable as at December 31, 2022) in income taxes no later than 12 months after the reporting date.

Note 18 – Related party transactions

Related parties include Desjardins Capital Management Inc. (Desjardins Capital), 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 Desjardins Capital with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. This management agreement, which had been in effect since January 1, 2018, for a three-year term, has been amended and now provides for automatic renewals of one-year terms, unless terminated by one of the parties. Under this agreement, management fees amount to a maximum rate of 1.75% 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 other investment funds, whether in the portfolio of Investments impacting the Québec economy or Other investments. Desjardins Capital 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 Desjardins Capital with regard to the growth in CRCD's assets. The negotiation fees arising from portfolio companies are earned by Desjardins Capital, and their amount is deducted from the management fees payable by CRCD.
- CRCD has appointed Desjardins Trust Inc. as a shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. On January 1st, 2023, an amended and restated agreement entered into force with an expiration date of December 31st, 2025. Renewals are automatically granted for one-year terms upon expiration of the term, unless terminated by one of the parties.
- CRCD has entrusted Desjardins Trust Inc. with custody services for its assets. The custody and administration agreement has been amended and restated on January 1st, 2023 for an unlimited period of time, unless terminated by one of the parties.
- CRCD has appointed FCDQ to oversee the distribution of its shares through the Desjardins caisse network and AccesD. On January 1st, 2023, an amended and restated agreement entered into force with an expiration date of December 31st, 2025. Renewals are automatically granted for one-year terms upon expiration of the term, unless terminated by one of the parties. 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, through its manager, has entrusted Desjardins Technology Group Inc. with its IT development strategy (IT master plan), particularly the upgrading of its investment management software.

Note 18 – Related party transactions (continued)

Related party transactions

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

| | As at June 30, 2023 | | | As at December 31, 2021 | | |
|-----------------------|-----------------------------|--------------------------------------------------|-------------|-----------------------------|--------------------------------------------------|-------------|
| | Desjardins Capital \$ | Other related parties ⁽¹⁾ \$ | Total \$ | Desjardins Capital \$ | Other related parties ⁽¹⁾ \$ | Total \$ |
| Balance Sheets | | | | | | |
| Assets | | | | | | |
| Other investments | — | (71) | (71) | — | 369 | 369 |
| Intangible assets | — | 3,699 | 3,699 | — | 5,102 | 5,102 |
| Accounts receivables | — | 423 | 423 | — | — | — |
| Cash | — | 15,522 | 15,522 | — | 5,975 | 5,975 |
| Liabilities | | | | | | |
| Accounts payable | 1,827 | 4,260 | 6,087 | 1,496 | 5,072 | 6,568 |
| Bank overdraft | — | — | — | — | 4,467 | 4,467 |

| | For the six-month periods ended June 30 | | | | | |
|-------------------------------------------|-----------------------------------------|--------------------------------------------------|-------------|-----------------------------|--------------------------------------------------|-------------|
| | 2023 | | | 2022 | | |
| | Desjardins Capital \$ | Other related parties ⁽¹⁾ \$ | Total \$ | Desjardins Capital \$ | Other related parties ⁽¹⁾ \$ | Total \$ |
| Statements of Comprehensive Income | | | | | | |
| Revenue | | | | | | |
| Gains (losses) on investments | — | (2,504) | (2,504) | — | (1,354) | (1,354) |
| Financial Fees | — | (761) | (761) | — | (719) | (719) |
| Expenses | | | | | | |
| Management fees | 14,083 | — | 14,083 | 14,006 | — | 14,006 |
| Other operating expenses | — | 4,473 | 4,473 | — | 4,314 | 4,314 |
| Shareholder services | — | 5,895 | 5,895 | — | 5,890 | 5,890 |

⁽¹⁾ Other related parties include FCDQ and its subsidiaries, namely, Desjardins Securities, Desjardins Technology Group Inc, Desjardins Trust, Desjardins Investment and Desjardins Global Asset Management. They also include Desjardins caisse network.

Key management personnel compensation

CRCD's key management personnel are the members of the Board of Directors. For the six-month period ended June 30, 2023, compensation of key management personnel comprised solely short-term benefits in the amount of \$287,704 (\$268,900 for the six-month period ended June 30, 2022).

Note 19 – Comparative figures

Certain comparative figures have been restated to conform with the presentation of the current year.