CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

MANAGEMENT DISCUSSION AND ANALYSIS

This annual management discussion and analysis (MD&A) supplements the financial statements and contains financial highlights but does not reproduce the full annual financial statements of Capital régional et coopératif Desjardins (CRCD). It presents management's assessment of CRCD's results for the period reported in the financial statements, as well as its financial position and any material changes to it.

CRCD's annual and compounded returns expressed in this MD&A are net of expenses and income taxes while returns by activity or investment profile represent returns before expenses and income taxes.

This disclosure document contains management's analysis of forward-looking statements. Caution should be exercised in the interpretation of this analysis and these statements since management often makes reference to objectives and strategies that contain risks and uncertainties. Due to the nature of CRCD's operations, the associated risks and uncertainties could cause actual results to differ from those anticipated in forward-looking statements. CRCD disclaims any intention or obligation to update or revise such statements based on any new information or new event that may occur after the reporting date.

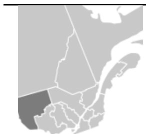
Copies of the annual financial statements may be obtained free of charge, on request, by calling 514 281-2322 or (toll free) 1 866 866-7000, extension 5552322, by writing to 2 Complexe Desjardins, P.O. Box 760, Desjardins Station, Montréal, Québec H5B 1B8, or from our website at www.capitalregional.com or SEDAR at www.sedar.com.

Interim financial information may be obtained in the same way.

HIGHLIGHTS

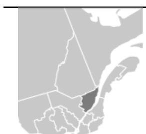
COMMITMENTS THROUGHOUT QUÉBEC

CRCD and its ecosystem[1] make a real contribution to the economic development of the regions. As at December 31, 2018, the funds committed were as follows:

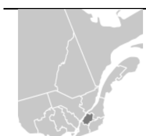


ABITIBI-TÉMISCAMINGUE*
$**22**M → **29** companies
$**1**M → **1** cooperative

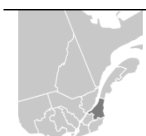
BAS-SAINT-LAURENT*
$**18**M → **22** companies
$**0.2**M → **1** cooperative



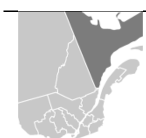
CAPITALE-NATIONALE
$**68**M → **31** companies
$**2**M → **1** cooperative



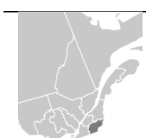
CENTRE-DU-QUÉBEC
$**56**M → **21** companies
$**13**M → **2** cooperatives



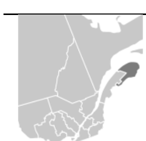
CHAUDIÈRE-APPALACHES
$**97**M → **30** companies
$**4**M → **4** cooperatives



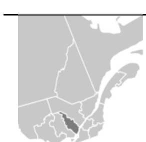
CÔTE-NORD*
$**3**M → **9** companies



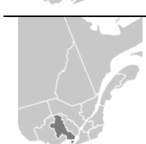
ESTRIE
$**60**M → **29** companies
$**4**M → **3** cooperatives



GASPÉSIE – ÎLES-DE-LA-MADELEINE*
$**5**M → **7** companies

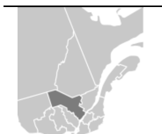


LANAUDIÈRE
$**24**M → **12** companies
$**1**M → **1** cooperative

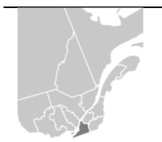


LAURENTIDES
$**10**M → **6** companies

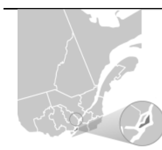
LAVAL
$**17**M → **10** companies



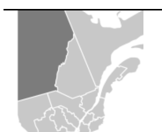
MAURICIE*
$**11**M → **9** companies
$**1**M → **1** cooperative



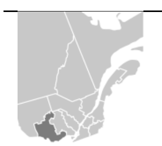
MONTÉRÉGIE
$**165**M → **54** companies
$**83**M → **3** cooperatives



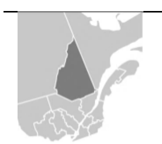
MONTRÉAL
$**210**M → **72** companies
$**86**M → **2** cooperatives



NORD-DU-QUÉBEC*
$**3**M→ **15** companies



OUTAOUAIS
$**4**M → **2** companies



SAGUENAY – LAC-SAINT-JEAN*
$**59**M → **63** companies
$**2**M → **3** cooperatives

OUTSIDE QUÉBEC (ex Europe)
$**2**M → **5** companies

EUROPE
$**7**M → **3** companies

FUNDS
$**71**M → **16** funds

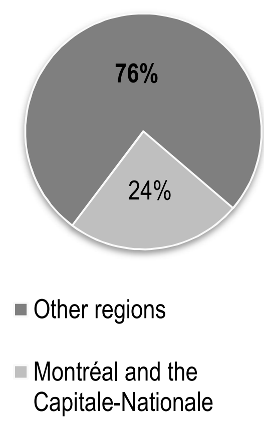
IN TOTAL

467
COMPANIES, COOPERATIVES AND FUNDS

$1,109M
BENEFITTING SMES

58,000
JOBS CREATED OR MAINTAINED

76%
OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND THE CAPITALE-NATIONALE



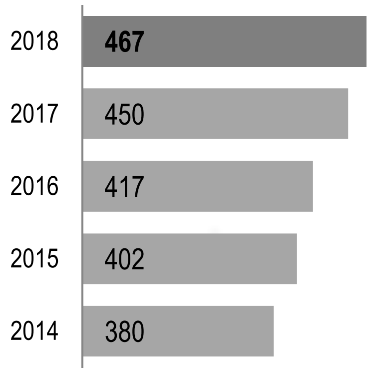
** Resource region*

See the "Entrepreneurial ecosystem" section for a detailed description of the main features of the ecosystem.

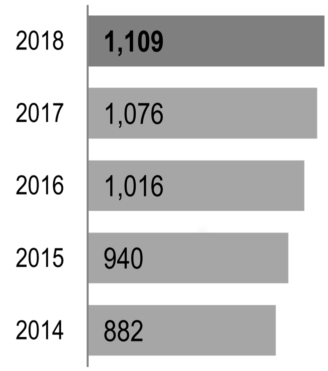
CRCD AND ITS ECOSYSTEM SUPPORT COMPANIES AND COOPERATIVES

AS AT DECEMBER 31

Total companies, cooperatives and funds



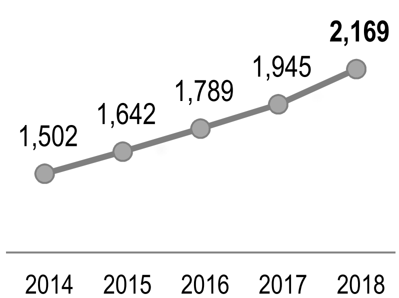
Funds committed ($M)



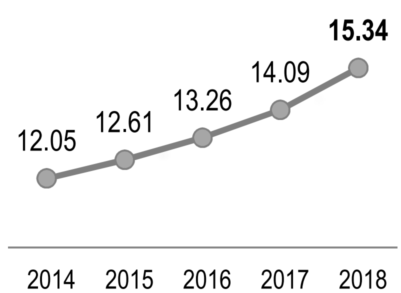
CRCD FINANCIAL DATA

AS AT DECEMBER 31

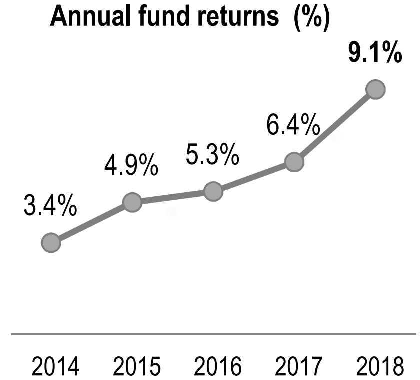
Net assets ($M)



Share price ($)



Annual fund returns (%)



CRCD FINANCIAL HIGHLIGHTS

The following charts present key financial data and are intended to assist in understanding CRCD's financial results for the preceding five fiscal years. This information is derived from CRCD's audited separate annual financial statements.

RATIOS AND SUPPLEMENTAL DATA AS AT DECEMBER 31

(in thousands of $, unless indicated otherwise)	2018	2017	2016	2015	2014
Revenue	**70,285**	51,392	44,449	45,269	44,422
Gains on investments	**138,632**	96,541	78,869	64,035	42,884
Net earnings	**174,894**	112 757	85,957	74,806	49,245
Net assets	**2,168,804**	1,945,342	1,789,417	1,642,076	1,502,462
Common shares outstanding (number, in thousands)	**141,391**	138,080	134,944	130,183	124,665
Total operating expense and common share issue expense ratio[1] (%)	**1.6**	1.9	2.2	2.0	2.2
Portfolio turnover rate:					
- Investments impacting the Québec economy (%)	**17**	16	11	19	19
- Other investments (%)	**163**	87	126	131	102
Trading expense ratio[2] (%)	**0.0**	0.0	0.0	0.0	0.0
Number of shareholders (number)	**107,862**	105,614	104,317	102,222	96,236
Issues of common shares	**141,179**	134,850	133,401	149,882	62,906
Common share issue expenses, net of related taxes	**2,523**	2,396	1,579	1,750	764
Redemption of common shares	**90,088**	89,285	70,438	83,324	79,501
Investments impacting the Québec economy at cost	**838,258**	828,255	787,142	738,596	675,355
Fair value of investments impacting the Québec economy	**1,080,069**	1,033,951	921,518	817,199	710,923
Funds committed but not disbursed	**192,169**	183,606	189,121	171,082	193,764

(1) The ratio of total operating expenses and common share issue expenses is calculated by dividing total expenses (before income taxes) as shown on the separate statements of comprehensive income and common share issue expenses as shown on the separate statements of changes in net assets by net assets as at the end of the period or by average net assets for the financial year, pursuant to Section 68 of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure*.

(2) Trading expense includes brokerage fees and other portfolio transaction costs. These expenses are not material to CRCD.

CHANGES IN NET ASSETS PER COMMON SHARE AS AT DECEMBER 31

(in $)	2018	2017	2016	2015	2014
Net assets per common share, beginning of year	**14.09**	**13.26**	**12.61**	**12.05**	**11.66**
Increase attributable to operations	**1.28**	**0.84**	**0.66**	**0.59**	**0.40**
Interest, dividends, distributions and negotiation fees	0.51	0.38	0.34	0.35	0.36
Operating expenses	(0.21)	(0.24)	(0.26)	(0.23)	(0.25)
Income taxes	(0.03)	(0.02)	(0.03)	(0.03)	(0.06)
Realized gains (losses)	0.79	0.06	0.18	0.29	0.52
Unrealized gains (losses)	0.22	0.66	0.43	0.21	(0.17)
Difference attributable to common share issues and redemptions	**(0.03)**	**(0.01)**	**(0.01)**	**(0.03)**	**(0.01)**
Net assets per common share, end of year	**15.34**	**14.09**	**13.26**	**12.61**	**12.05**

OVERVIEW

CRCD ended fiscal 2018 with net earnings of $174.9 million ($112.8 million in 2017), representing a return of 9.1% (6.4% in 2017), resulting in an increase in net assets per share to $15.34 based on the number of common shares outstanding at the end of the fiscal year, compared with $14.09 at the end of fiscal 2017. CRCD aims to strike an appropriate long-term balance between shareholder return and its mission of Québec economic development. The financial asset management strategy adopted by CRCD several years ago provides the benefits of strong complementarity between the Investments impacting the Québec economy and Other investments portfolios. In fact, CRCD has now generated favourable returns for ten years.

Investments impacting the Québec economy posted a return of 19.7% in 2018, compared with a return of 12.7% in 2017. As at December 31, 2018, the cost of Investments impacting the Québec economy totalled $838.3 million, of which $176.4 million was disbursed during fiscal 2018. As at December 31, 2018, commitments made but not disbursed, which represent investments already agreed upon with companies, cooperatives or funds and that will be disbursed by CRCD at a later date, amounted to $192.2 million. New commitments for the year amounted to $185.0 million. Despite stock market turbulence in 2018, particularly during the last quarter, CRCD performed well, as the Other investments portfolio posted a 1.3% return for fiscal 2018, compared with a 4.2% return for fiscal 2017.

During the year, issues of common shares totalled $141.2 million, including the balance of the 2017 issue and substantially all of the maximum authorized amount of $139.6 million for the 2018 issue. For more information, please see the Subscriptions section of this MD&A. Share redemptions totalled $90.1 million. Net assets amounted to $2,168.8 million. The number of shareholders as at December 31, 2018 was 107,862. As at December 31, 2018, the balance of shares eligible for redemption totalled $1,040 million. However, this balance will be reduced by $100 million in 2019 as the shareholders selected during the share exchange process have made commitments to defer for seven years the right to redeem their eligible shares.

OUR VISION FOR QUÉBEC ENTREPRENEURSHIP

Québec faces a huge challenge: developing and growing existing businesses. Businesses in Québec tend to remain too small and to overleverage themselves, putting a healthier capital structure at risk. Undercapitalization has significant repercussions on their performance, including low productivity and a low level of activity in international markets, which ultimately lowers Québec's ability to create and retain its fair share of highly paid jobs – jobs that are needed to maintain a healthy economy for the province.

Together with its manager Desjardins Capital Management Inc. (Desjardins Capital or DC), CRCD, in carrying out its mission, aims to stand tall and play a unique role on these diverse issues that guide its actions every day.

GROWING BUSINESSES STRONGER

From the support, networking or training we offer our partner companies through to enhancing our product offering and sharing our business network, CRCD, through its manager, DC, acts on many levels to grow Québec SMEs and cooperatives.

As a leading player on the Québec development capital scene, we contribute to the vitality of the Québec economy by financing companies' growth initiatives, energizing the regions, and supporting jobs and business successions to build a strong Québec now and for future generations. A Québec leader in business transfers, DC has already completed several hundred transactions contributing to the continuity and sustainability of Québec's flagship companies. In addition, we support start-up or early-stage companies that use technological or industrial innovations and capitalize on new uses of existing technologies.

We also support Québec SMEs in their expansion in Europe with the new Desjardins Capital Transatlantic, L.P. fund which began operations during the second half of the year. This fund makes a new area of expertise available to Québec entrepreneurs, well beyond financial concerns, through support for international development with a team on the ground. A DC representative is based in France to support Québec entrepreneurs who want to develop new markets by setting up offices or acquiring competitors in Europe.

A real catalyst in the business development process of our existing and potential partners, we maintain close relationships with entrepreneurs throughout the province by creating numerous networking opportunities. These meetings make it possible to bring together entrepreneurs, business partners and experts who have questions on topical matters such as growth challenges and business succession issues.

Our support goes far beyond sharing our vast internal network and external business relationships. Various agreements have been negotiated, with Desjardins Group as well as other specialized external firms, to offer value-added services to our entrepreneurs in achieving their objectives.

Furthermore, we provide our partner companies with tailored support for implementing and monitoring sound SME governance practices, which represents undeniable value added. Very active in this area, we have a network of nearly 250 directors with skills and expertise unequalled in the industry. Their role is to help entrepreneurs set up a governance forum to support business growth and strategy. They have access to work tools and are regularly trained and evaluated to ensure they can effectively meet the needs of the companies they work with. Our entrepreneurial governance model, based on agility, simplicity, strategic thinking and alignment with business needs, is a unique type of support greatly appreciated by partner entrepreneurs.

ECONOMIC CONDITIONS

ECONOMIC ENVIRONMENT IN 2018 AND ECONOMIC OUTLOOK FOR 2019

After accelerating sharply in 2017, the international economy continued to expand in 2018. The annual gain in GDP is estimated at 3.7%. This good growth was despite a slowdown in international trade, the result of escalating protectionism that began in the U.S. Furthermore, the growth in several major economies slowed during the year. This was the case in the eurozone, where most confidence indices declined. Euroland's real GDP grew 1.8%, decidedly slower than the 2.5% growth posted for 2017. The Italian budgetary and political problem, the social strains in France and the difficulties in Germany's manufacturing sector have given cause for concern in Europe. In the United Kingdom, the trend is weak, due in particular to uncertainties around Brexit. The Chinese economy is growing at a slightly slower pace, at 6.6% for 2018 compared to 6.8% in 2017. Trade tensions between the U.S. and China have affected the economic environment in China, but also in many emerging countries.

The favourable economic environment and rising inflation led many central banks to continue normalizing monetary policy in 2018. In Europe, the European Central Bank stopped buying financial assets in December 2018, while the Bank of England raised its key interest rates by 0.25%. In North America, the pace of key interest rate hikes accelerated, with the U.S. Federal Reserve (the Fed) announcing four 0.25% increases, compared to three in Canada. Tighter monetary policies and optimistic statements issued by the central banks, particularly in North America, led to higher bond yields in early 2018. The rising interest rates, trade tensions and fears around the health of the global economy brought considerable volatility back to the stock markets. Even the S&P 500 Index, encouraged by tax reform and boosted by corporate earnings, nevertheless incurred two major corrections in 2018, ending the year lower compared to 2017. The year was even more difficult for most of the other stock exchanges. Stock markets in Europe and the emerging economies were held back by trade tensions, political uncertainties and the strength of the U.S. dollar, and the drop in the Toronto Stock Exchange was amplified by lower commodity prices. These factors also led to a weaker Canadian dollar and caused bond rates to fall sharply at the end of 2018.

The global economy should continue to grow in 2019, but economic activity is not expected to accelerate. The trade tensions and concerns about the emerging countries suggest a certain levelling off. In the industrialized countries, demand from the U.S. should partly offset weaker growth in the eurozone. The issue of the divorce between the European Union and the United Kingdom is not yet settled, and the related uncertainties may manifest in the economy. Volatility in the financial markets, concerns about Europe and China and the return of their monetary policies to a virtually neutral orientation should convince the Fed and the Bank of Canada to slow the pace of increases to their key interest rates. The increase in bond rates should also be limited. The return of a more positive sentiment on financial markets could exert some negative pressure on the U.S. dollar. Volatility may well remain high in the stock markets, but strong economic growth and high earnings levels leave hope that the North American indices will outperform their historical averages in 2019. The economic environment should also be quite favourable for commodities and, as a result, for the dollar and Canadian financial assets.

UNITED STATES

In the wake of slightly slower growth in early 2018, economic activity in the U.S. accelerated markedly in the spring, and real GDP grew strongly again in the second half of 2018. Confidence remained strong throughout the year despite greater volatility in the financial markets, escalating protectionism, the interest rate hikes and the mid-term elections. Real GDP grew 2.9% in 2018, on the heels of a 2.2% gain in 2017.

The economic environment in the U.S. should continue to be favoured by the budgetary policies implemented in 2018. However, the situation may change due to the risk of political stalemates following the mid-term elections. This became clear with the partial shutdown of the federal government that began at the end of December. Conditions in the labour market should nevertheless continue to improve, which will exert slightly more pressure on salaries and prices. Real GDP should reach 2.6% in 2019. However, the Trump administration's protectionist measures and reprisals by other countries represent significant risks.

CANADA

Following exceptional growth of 3.0% in 2017, Canadian real GDP expanded at a more sustainable rate of around 2.1% in 2018. The slower pace was due mostly to domestic demand. Household spending was not as strong, with slower growth in consumer spending and less residential investment. For the most part this was due to the effects of gradual rising Canadian interest rates and a series of restrictive measures affecting mortgage lending and the housing market. The economy experienced more problems late in the year when the energy sector was hard hit by plummeting oil prices, aggravated in Canada by constraints on the transportation of oil products. The year was also marked by an agreement to replace the North American Free Trade Agreement (NAFTA) with the Canada-United States-Mexico Agreement (CUSMA). This helped reduced uncertaint, opening the way for accelerated non-residential business investment in non-energy sectors.

The 2019 outlook in Canada is for growth near the economy's potential. The problems in the energy sector are expected to continue at the start of the year, as the Alberta government has imposed a significant cut in the province's oil production. The gradual increase in interest rates will also continue to affect consumer spending and the housing market. This being said, several favourable factors are still in place, allowing, among other things, growth in domestic demand to continue at a satisfactory pace. The labour market is strong, with the unemployment rate close to an historic low. Furthermore, demand for new and existing homes remains quite good, and the population is growing relatively quickly, particularly in the 25-to-34-year-old group. Lastly, if CUSMA is ratified as expected, businesses in the non-energy sectors should continue to invest in an environment where full use of production capacity is generating some problems satisfying growing demand. In trade, foreign demand should continue to expand in 2019, but at a slower pace. This will nevertheless foster export growth. The risks nevertheless remain substantial due to the trade wars being waged around the world. In the final analysis, real GDP could grow by 1.8% in 2019.

QUEBEC

The Quebec economy grew at a sustained pace in 2018. Real GDP rose by approximately 2.3% for the year, slightly slower than the 2.8% growth posted for 2017. Households continued to be active, driving the residential real estate market. Consumer spending maintained a good pace, with household confidence still high. Existing home sales reached new heights, with prices rising at close to 5.2% in 2018. The provincial unemployment rate averaged 5.5% last year, exacerbating the problems many businesses were experiencing recruiting talent. The upward pressure on salaries grew, and employees' hourly compensation increased by approximately 4% last year. Business investment and exports firmed up slightly in 2018, despite the period of uncertainty associated with the NAFTA renegotiations, which continued into the fall.

The Quebec economy is expected to slow somewhat in 2019. The interest rate increases that began in mid-2017 should moderate consumer spending, in particular purchases of big-ticket items that require financing. The residential real estate market will also be affected by higher borrowing costs. Home sales and housing starts can be expected to weaken slightly in 2019, compared to the exceptional market activity of 2018. CUSMA has reduced uncertainty for businesses and will be good for both investment and exports. It remains to be seen whether the tariffs of 25% on steel and 10% on aluminum, which are not part of the new agreement, will be maintained. Quebec's real GDP is expected to grow 2% in 2019, or slightly slower than in 2018.

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

OPERATING RESULTS

CRCD'S NET RESULTS AND RETURNS

CRCD reported net earnings of $174.9 million for the year ended December 31, 2018, representing a return of 9.1%, compared with net earnings of $112.8 million (return of 6.4%) for the previous year. Accordingly, net assets per share increased to $15.34 based on the number of common shares outstanding at the end of the fiscal year, compared with $14.09 at the end of fiscal 2017. For illustrative purposes, at a price of $15.34 effective February 14, 2019, shareholders who invested seven years earlier would obtain an annual after-tax return of more than 12.6%, taking into account the 50% income tax credit as per the rate applicable on February 14, 2012.

CRCD's performance is driven primarily by Investments impacting the Québec economy and Other investments, which generated returns of 19.7% and 1.3%, respectively, while expenses, net of administrative charges received and income taxes had an impact of 1.9% on CRCD's performance.

CRCD's asset allocation strategy allows it to enjoy a more balanced overall portfolio profile, while actively contributing to Québec's economic development.

RETURN BY ACTIVITY	**2018**				**2017**			
	Average assets under management ($M)	**Weighting (%)**	**Return 1 year (%)**	**Contribution 1 year (%)**	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy[1]	**1,070**	**52.6**	**19.7**	**10.4**	975	52,9	12,7	6.6
Other investments and cash	**965**	**47.4**	**1.3**	**0.6**	867	47,1	4,2	2.0
	2,035	**100.0**	**11.0**	**11.0**	1,842	100.0	8.6	8.6
Expenses, net of administrative charges			**(1.7)**	**(1.7)**			(2.0)	(2.0)
Income taxes			**(0.2)**	**(0.2)**			(0.2)	(0.2)
CRCD's return			**9.1**	**9.1**			6.4	6.4

[1] Includes Investments impacting the Québec economy, amounts receivable on disposal of investments, notes payable and foreign exchange contracts.

INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of $177.5 million and disposals of $291.0 million were made for a net balance of $(113.5) million. Combined with realized and unrealized net gains of $158.3 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to $1,080.0 million as at December 31, 2018 ($1,035.2 million as at December 31, 2017). The $177.5 million in investments made during the year consisted primarily of an aggregate amount of $72.2 million invested in three companies, as well as $48.8 million in the funds comprising the entrepreneurial ecosystem, as described below.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, which amounted to $192.2 million as at December 31, 2018, compared with $183.6 million as at December 31, 2017. Total commitments at cost as at December 31, 2018 amounted to $1,030.4 million in 99 companies, cooperatives and funds, of which $838.3 million was disbursed. As at December 31, 2018, backed by its entrepreneurial ecosystem, CRCD supported growth in 467 companies, cooperatives and funds.

During fiscal 2018, higher value recognized on underlying investments increased a financial liability by $1.5 million to $4.7 million ($3.2 million as at December 31, 2017). During the year ended December 31, 2018, subsequent to an agreement between the parties, CRCD repaid in full the notes payable related to the acquisition of certain investments of Desjardins Venture Capital L.P. on November 30, 2010, ($20.2 million as at December 31, 2017).

During fiscal 2018, Investments impacting the Québec economy generated a contribution of $200.2 million, for a return of 19.7%, compared with $116.2 million in 2017 (a 12.7% return).

CONTRIBUTION GENERATED BY INVESTMENTS IMPACTING THE QUÉBEC ECONOMY (in thousands of $)	**2018**	**2017**
Revenue	**43,144**	31,658
Gains and losses	**157,072**	84,501
	200,216	116,159

Revenue, consisting of interest, dividends and negotiation fees related to Investments impacting the Québec economy, provides a solid income base that promotes overall portfolio profitability. The $11.5 million increase in revenue between the years stemmed primarily from a significant dividend received in the second half of the year. Negotiation fees, which amounted to $3.0 million for fiscal 2018 ($3.5 million in 2017), are earned by DC, the manager, and a credit for that amount is applied against the management fees paid to DC by CRCD. Negotiation fees are included in the contribution generated by the Investments impacting the Québec economy as they are included in the profitability analysis of the investments. The profile of the investments held by CRCD is changing and the amounts injected into its ecosystem funds continue to grow (see the following section for more details). Therefore, investments held by these ecosystem funds generate revenue in addition to the revenue generated by CRCD's direct investments. This revenue, of which CRCD's share amounted to $14.3 million for fiscal 2018 ($13.3 million in 2017), is reported as Gains and losses as it makes a positive contribution to the fair value of CRCD's interest in these funds.

CRCD accounts for its Investments impacting the Québec economy at fair value. Two comprehensive portfolio reviews are carried out each year, with one covering the six-month period ending June 30 and the other covering the six-month period ending December 31.

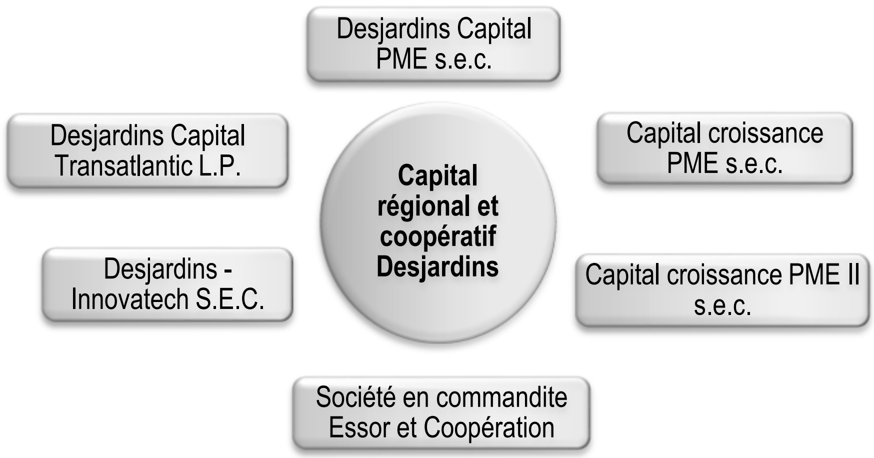
CRCD recorded a realized and unrealized gain of $157.1 million for the fiscal year, compared with $84.5 million for fiscal 2017. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2018, the overall risk level of the Investments impacting the Québec economy portfolio had deteriorated slightly compared with its December 31, 2017 level, as discussed in the Credit and counterparty risk section.

ENTREPRENEURIAL ECOSYSTEM

CRCD invests directly in Québec companies and also fulfils its economic development role via investments through the funds it has helped create with its manager, each of which has a specific mission. With this approach of seeking capital from various partners, CRCD can leverage its resources, thereby enhancing its positive impact on Québec's economic development.

Main funds of the entrepreneurial ecosystem



These funds, which are also managed by CRCD's manager, DC, are detailed below:

- On January 1, 2018, DC created the Desjardins Capital PME s.e.c. fund. (DCPME) in partnership with Desjardins Private Management. The fund's main goal is to invest in Québec's small- and medium-sized businesses, primarily in the form of subordinated debt securities for amounts not exceeding $10 million. This sustainable fund is an open-ended limited partnership, allowing the number of limited partners to vary. The limited partners' commitments are made on an annual basis. For fiscal 2018, the limited partners, consisting of CRCD and the DIM Private Completion Strategy Fund, committed to pay $100 million. As at December 31, 2018, CRCD had disbursed $30.4 million of its $40.0 million commitment and a total of 44 companies and funds benefited from $77.3 million committed by the DCPME fund. For fiscal 2019, the limited partners have made commitments in the same percentage for an amount of $100 million.
- On July 4, 2018, DC created two new funds jointly with France-based Groupe Siparex: the Desjardins Capital Transatlantic, L.P. fund (DC Transatlantic) and the Siparex Transatlantique – Fonds professionnel de Capital Investissements fund. The purpose of these funds is to co-invest in SMEs in Québec and Europe to support them in their marketing or acquisition efforts on both sides of the Atlantic. CRCD and other investor partners such as Export Development Canada (EDC), Groupe Siparex and French public investment bank BPIFrance committed a total of €75 million, or approximately $120 million, to the two funds. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at December 31, 2018, CRCD had disbursed $5.1 million of its total commitment of $35.5 million (€22.8 million), allowing three companies to benefit from $6.8 million committed by the fund.
- The objective of the Société en commandite Essor et Coopération (Essor et Coopération), established on January 1, 2013, is to support the creation, growth and capitalization of cooperatives in Québec. CRCD and other partners, including three from the cooperative sector, have made commitments totalling $89.9 million. CRCD has a 94.6% interest in the Essor et Coopération fund. Since the fund's inception, CRCD has disbursed $32.6 million of its total commitment of $85 million. As at December 31, 2018, Essor et Coopération had committed $30.5 million in 19 cooperatives.
- CRCD is also the sponsor of the Desjardins-Innovatech S.E.C. fund (DI). DI has undertaken to inject a total of $85 million to support Québec technology or innovation businesses through each stage of their development. CRCD's interest in DI is 54.5%. In addition to this interest, CRCD has agreed to make an additional investment in the form of a note for a maximum amount of $5.0 million in DI of which $0.7 million was disbursed in 2018 for a total disbursement of $1.7 million. This note does not affect the units held by CRCD in this fund. In partnership with specialized organizations, DI helps create innovative business accelerators located in various regions of Québec, enabling it to support businesses from the embryonic stage through commercialization. As at December 31, 2018, DI had committed $64.6 million to support a total of 67 companies and funds.
- The Capital croissance PME s.e.c. fund (CCPME), created on July 1, 2010, had an investment policy similar to that of the DCPME fund, which is to make capital available to Québec companies, with an investment limit not exceeding $5 million. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the fund, agreed to invest, on a 50/50 basis, a total initial amount of $220 million. The 2014 renewal of this agreement resulted in the creation of Capital croissance PME II s.e.c. fund (CCPME II), which allowed an additional $320 million to be committed, increasing the total commitments in the two funds to $540 million. As at December 31, 2018, CRCD had disbursed $246.3 million of its total commitment of $270 million. As CCPME II's investment period closed on November 30, 2017, funds committed but not disbursed will be used for reinvestment and to pay the fund's operating expenses until its scheduled winding-up date of November 30, 2023. A total of 261 companies and funds benefited from $237.2 million committed by the CCPME funds as at December 31, 2018. Since their inception, these funds have committed $455.9 million to 375 companies.

In all, as at December 31, 2018, CRCD and its ecosystem supported the growth of 467 companies, cooperatives and funds in various industries spanning virtually all Québec regions with commitments of $1,109 million, while helping to create and retain over 58,000 jobs. Of that total, 22 cooperatives benefited from commitments of $196.3 million.

Given the size of the amounts allocated to the ecosystem's funds and to better manage and track operations, CRCD monitors changes in asset allocation and performance by investment profile.

Each investment profile includes assets held by CRCD together with similar assets held by the funds in its ecosystem based on CRCD's proportionate share in each fund.

The investment profiles related to Investments impacting the Québec economy are:

- Debt: investments in the form of advances and/or mainly unsecured loans and/or preferred shares;
- Equity: investments comprising common shares that may be combined with advances and/or mainly unsecured loans and preferred shares in companies other than those included under the Venture capital profile;
- Venture capital: investments in companies specializing in technological innovations or in pre-startup, startup or post-startup stages.
- External funds: investments in funds outside CRCD's entrepreneurial ecosystem;

Entrepreneurial ecosystem performance

RETURN BY INVESTMENT PROFILE	**2018**				2017			
	Average assets under management ($M)	**Weighting (%)**	**Return 1 year (%)**	**Contribution 1 year (%)**	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	**313**	**15.4**	**5.5**	**0.8**	288	15.6	5.6	0.9
Equity	**650**	**31.9**	**26.9**	**9.0**	593	32.2	19.5	5.9
External funds	**41**	**2.0**	**18.6**	**0.4**	53	2.9	(22.7)	(0.9)
Venture capital	**54**	**2.7**	**12.4**	**0.2**	32	1.7	43.6	0.7
Investment profiles subtotal	**1,058**	**52.0**	**19.8**	**10.4**	966	52.4	12.9	6.6
Other asset items held by ecosystem funds	**12**	**0.6**	**(12.2)**	**(0.0)**	9	0.5	(2.0)	(0.0)
Ecosystem total	**1,070**	**52.6**	**19.7**	**10.4**	975	52.9	12.7	6.6

The entrepreneurial ecosystem's sound performance stems from the Equity investment profile, which posted a return of 26.9%. This return was mainly driven by the improved profitability of several portfolio companies as well as by significant gains following disinvestment in certain key portfolio companies. Given the significant volume of assets allocated to the Equity profile, it was the major contributor to the ecosystem's return of 19.7% in 2018.

OTHER INVESTMENTS

Managing the Other investments portfolio involves the portion of assets not earmarked for Investments impacting the Québec economy, including temporarily available cash resources prior to their investment in companies.

CRCD has implemented management strategies for the Other investments portfolio to optimize potential returns while retaining the required liquidity to meet liquidity needs arising from redemption requests from shareholders and Investments impacting the Québec economy it expects to make. This portfolio, consisting primarily of liquid assets, includes fixed-income securities, global equity funds, Canadian equity funds and real estate funds. This portfolio provides stable current revenue for CRCD and ensures sound diversification.

As at December 31, 2018, CRCD's Other investments portfolio, including cash but excluding foreign exchange contracts, totalled $1,041.5 million ($889.3 million as at December 31, 2017) and consisted of the following:

Other investments portfolio	As at December 31, 2018		As at December 31, 2017	
	Fair value ($M)	% of portfolio	Fair value ($M)	% of portfolio
Cash and money market instruments	63.6	6.1	46.2	5.2
Bonds	642.0	61.6	506.2	56.9
Global equity funds	149.3	14.3	155.0	17.4
Canadian equity funds	90.2	8.7	93.1	10.5
Real estate funds	96.4	9.3	88.8	10.0
Portfolio total	1,041.5	100.0	889.3	100.0

As at December 31, 2018, 79% of portfolio bond securities were government guaranteed (72% as at December 31, 2017).

The Other investments portfolio represented 48% of total net assets at the end of 2018 (46% as at December 31, 2017), an increase mainly arising from significant divestments in the Investments impacting the Québec economy portfolio in 2018. Commitments already made but not disbursed of $192.2 million, representing 9% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

CRCD expects Other investments to represent nearly 35% of total net assets over the long term. In keeping with its core mission, this will allow an increase in funds allocated to Investments impacting the Québec economy.

CONTRIBUTION GENERATED BY OTHER INVESTMENTS (in thousands of $)	2018	2017
Revenue	29,696	22,753
Gains and losses	(18,440)	12,040
	11,256	34,793

Revenue consists mainly of interest, dividends and distributions related to Other investments. Interest income (primarily from bonds) is recognized at the bond rate in effect at the acquisition date.

Current revenue rose $6.9 million compared with 2017 due to higher interest rates during the period.

Losses of $18.4 million in fiscal 2018 stemmed mainly from the following financial assets:

The bond portfolio posted a $1.6 million decline in value, owing primarily to widening credit spreads and a two-basis-point increase in the key interest rate since December 2017.

The strong downturn in equity markets in the last quarter of 2018 impacted CRCD's Other investments portfolio. The portfolio recorded losses of $13.6 million for global equity funds and $6.9 million for Canadian equity funds. As portfolio equity funds have low volatility, CRCD did not bear the full brunt of the unfavourable equity market conditions in late 2018.

The real estate funds generated a gain of $3.2 million, owing primarily to the revaluation of properties held in Toronto and Vancouver.

CRCD's financial asset management strategy aims to diversify the market risks associated with the Other investments portfolio through the use of Canadian and global market securities unrelated to bond markets. Moreover, CRCD aims to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of bond rates on CRCD's results.

CAPITAL RAISING

CRCD offers its common shares for subscription through the Desjardins caisse network in Québec and via AccèsD Internet.

On February 28, 2014, CRCD reached its capitalization limit of $1.25 billion. Under its constituting act, share issues have since been limited to an amount equal to the preceding issue period's redemptions, up to a maximum of $150 million. Each issue period lasts 12 months and runs from March 1 to the last day of February of the following year.

However, in recent years, the provincial government has granted CRCD the right to issue shares for an amount greater than the limit stipulated in the Act. In its March 27, 2018 budget, the Québec government authorized CRCD to issue $140 million in shares for each of the 2018, 2019 and 2020 issues and set the tax credit rate for the purchase of shares at 35%. To allow as many shareholders as possible to buy CRCD shares under the $140 million 2018 issue, the maximum annual subscription amount allowable was capped at $3,000 per investor, for a tax credit of $1,050.

In the same budget, new provisions were announced concerning the possibility of taking advantage of a new tax credit for a shareholder who defers the redemption of eligible shares for seven years. The Government of Québec authorized CRCD, for the 2018, 2019 and 2020 issue periods only, to exchange its current shares for new shares up to an annual maximum of $100 million. These new provisions allow CRCD shareholders who have never redeemed shares to exchange their current eligible shares, up to a value of $15,000 annually, for a new class of shares which they will also be required to hold for at least seven years, as consideration for a provincial tax credit of 10% of the amounts exchanged. These provisions were implemented in the fall of 2018 and exchange requests for the maximum authorized amount of $100 million for the 2018 taxation year were accepted in February 2019.

The minimum holding period for CRCD shares before a shareholder would normally be eligible for a redemption is seven years to the day from the date of purchase. Note, however, that shareholders who withdraw some or all of their shares after the seven-year holding period may no longer claim a tax credit for any subscription for which the tax credit would apply in the current tax year or in any subsequent tax year.

A special tax is payable by CRCD if it fails to comply with the authorized issuance amounts, and control mechanisms have been implemented by CRCD to ensure compliance. No special tax was paid for fiscal 2018 or 2017.

As at December 31, 2018, CRCD had $1,577.4 million in share capital for 141,391,214 common shares outstanding.

During the year, CRCD raised $141.2 million, including the balance of $1.6 million from the 2017 issue and substantially all of the maximum authorized amount of $139.6 million for the 2018 issue. The $0.4 million balance for the 2018 issue was sold in January 2019.

With respect to issue expenses, an agreement was entered into between CRCD and the Fédération des caisses Desjardins du Québec to compensate the caisses in an amount equal to up to 2.9% of the value of the shares sold.

For fiscal 2018, redemptions of common shares totalled $90.1 million ($89.3 million in 2017).

As at December 31, 2018, the balance of shares eligible for redemption totalled $1,040 million. During 2019, additional shares valued at approximately $206 million will also become eligible for redemption bringing total potential redemptions to approximately $1,246 million for fiscal 2019. However, this balance will be reduced by $100 million in 2019 as the shareholders selected during the share exchange process have made commitments to defer for seven years the right to redeem their eligible shares. CRCD feels that the current economic conditions and low interest rates in particular are behind the low volume of redemptions in the last few years.

Subscriptions and redemptions for fiscal 2018 increased the number of shareholders to 107,862 as at December 31, 2018 from 105,614 as at December 31, 2017.

CRCD's policy is to reinvest income from operations rather than pay dividends to its shareholders in order to increase the capital available for investment in eligible entities and to create share value appreciation.

EXPENSES AND INCOME TAXES

EXPENSES (in thousands of $)	**2018**	2017
Management fees	**18,908**	23,865
Other operating expenses	**4,732**	5,046
Shareholder services	**6,305**	3,363
	29,945	32,274

CRCD has entrusted DC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The current three-year management agreement is in effect as of January 1, 2018. Under this agreement and the agreement effective for the year ended December 31, 2017, management fees amount to a maximum rate of 1.95% of CRCD's annual average asset value less any amounts payable related to Investments impacting the Québec economy and Other investments. An adjustment is made to the management fees charged to CRCD to avoid double billing relative to CRCD's interest in some funds. DC and CRCD have agreed that, for a given fiscal year, an adjustment could be made to allow CRCD to benefit from the economies of scale achieved by DC with regard to the growth of CRCD's assets and the increase in the balance of CRCD shares eligible for redemption over the last few years. For the year ended December 31, 2018, such a downward adjustment of $14.3 million ($6.6 million for the year ended December 31, 2017) was made. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD. The decrease in management fees mainly reflects the economies of scale achieved by DC with regard to the growth of CRCD's assets.

There was no significant change in other operating expenses between the two years.

The $2.9 million increase in shareholder services resulted primarily from investments in information technology required to improve and simplify shareholder experience when subscribing for CRCD shares and implementing the online solution for the exchange of shares.

CRCD has appointed Desjardins Trust Inc. as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. Since CRCD's inception, Desjardins Trust has represented the largest component of CRCD's shareholder service expenses. This agreement is effective from July 1, 2016 to December 31, 2020.

CRCD has appointed the FCDQ to distribute its shares through the Desjardins caisse network and via AccèsD Internet. CRCD has further agreed to pay project fees, as needed, to cover work required to upgrade the tools and applications supporting the CRCD share distribution processes. This agreement is effective from July 1, 2016 to December 31, 2020. The revised fee structure came into effect on January 1, 2017.

Income taxes amounted to $4.1 million in fiscal 2018, up from the previous year ($2.9 million in 2017). The nature of the income has a significant impact on tax expense since, unlike interest income, dividends are generally not taxable and capital gains are eligible for tax deductions and refund mechanisms.

LIQUIDITY AND CAPITAL RESOURCES

For fiscal 2018, cash inflows from issues net of redemptions amounted to $46.9 million (cash inflows of $43.0 million in 2017). Operating activities and the development of an intangible asset generated net cash outflows of $35.1 million ($32.6 million in 2017).

Cash outflows for Investments impacting the Québec economy amounted to $176.4 million for fiscal 2018 ($173.3 million in 2017). Net cash outflows for the Other investments portfolio totalled $163.3 million for fiscal 2018 ($16.3 million for fiscal 2017).

As at December 31, 2018, cash and cash equivalents totalled $41.3 million ($29.4 million as at December 31, 2017).

CRCD had an authorized line of credit of $50 million as at December 31, 2018. In the event that liquidity needs exceed expectations, this line of credit could be used on a temporary basis to cover CRCD's obligations. This additional flexibility optimizes the level of liquid assets held and reduces the risk of having to dispose of assets hastily under potentially less advantageous conditions. The line of credit was undrawn during fiscal 2018 and fiscal 2017.

Given the management approach for Other investments of matching the average maturity of bonds held with the average maturity of its expected cash outflows, CRCD does not anticipate any shortfall in liquidity in the short or medium terms and expects to be able to redeem eligible shares issued at least seven years earlier from those shareholders who make such a request.

CRCD'S VISION, MISSION, STRATEGIC PRIORITIES AND STRATEGIES

CRCD was founded on the July 1, 2001 effective date of the *Act constituting Capital régional et coopératif Desjardins* (the Act) adopted on June 21, 2001 by Québec's National Assembly, on the initiative of Desjardins Group. The manager, DC, manages its affairs.

MISSION

CRCD strives to value and nurture the best of Québec entrepreneurship that is part of the collective wealth that is ours to have and to hold. With that in mind, CRCD's mission will be to:

> *Energize our entrepreneurship. Prioritize Québec ownership. Grow our collective wealth and make it last for generations to come. By crossing over our walkways to tomorrow, together we can contribute to the vitality of an entire economy.*

CRCD'S VISION AND STRATEGIC PRIORITIES

Strategic planning work was carried out throughout 2016. The work involved consulting with our wide range of stakeholders, and included taking the pulse of shareholders and partner entrepreneurs as well as a number of meetings between CRCD's Board of Directors and DC's Management Committee. This approach allowed us to update CRCD's vision, identify issues as well as opportunities to be grasped and set our strategic priorities for the next three years. The 2017–2019 strategic plan was approved by CRCD's Board of Directors in late fiscal 2016.

CRCD's vision is to "Be the #1 choice of entrepreneurs: the go to for SMEs."

To achieve this, CRCD will continue to keep jobs and retain business ownership in Québec along with implementing initiatives that give our partners an edge.

Carrying out CRCD's mission and vision is driven by the following five strategic goals for 2017–2019:

- Ensuring the availability of sufficient long-term capital to carry out CRCD's mission
- Leveraging the strength of Desjardins Group to amplify CRCD's socioeconomic leadership
- Boosting CRCD's profile among SME entrepreneurs and visibility within the business community
- Enhancing the ability to innovate and anticipate entrepreneurs' needs so CRCD's offering remains ahead of the curve
- Growing CRCD's footprint in the resource regions, for cooperatives, among innovation enterprises and in new market segments

STRATEGIES

DC organizes its teams to optimize efficiency and control management fees. This administrative organization aims to appropriately fulfil our mandate of driving regional and cooperative development and Québec's economic development in general.

CRCD monitors changes in asset allocation and performance by investment profile to better manage operations. Each investment profile includes the assets held by CRCD and similar assets held by the funds in its ecosystem according to their respective interests.

CRCD aims for a balance between its mission to drive regional economic development and reasonable long-term return for the shareholders. Using a global approach to managing its financial assets, CRCD manages its portfolio of Investments impacting the Québec economy jointly with its Other investments portfolio. This allows CRCD to balance its overall investment portfolio and limit volatility in share price due to changing economic conditions over the entire holding period.

To do this, CRCD's strategy for managing financial assets is as follows:

- CRCD takes an integrated and overall approach to managing its financial assets, which means that target asset allocation must include diversification to reduce the risks inherent in certain asset classes within the investment portfolios.
- The objective is to optimize the after tax risk/return ratio of CRCD's financial assets in compliance with its role as an economic development agent, to limit six-month fluctuations in the price of its shares and secure reasonable returns for shareholders.
- A sufficient portion of CRCD's financial assets must be invested in liquid securities to meet any share redemption requests that exceed issues of shares.
- A sufficient portion of CRCD's financial assets must be invested in securities that generate current income to meet its expenses.

Lastly, CRCD is required to fulfil its mission within certain guidelines, including, as at December 31, 2018, having invested 63% (62% as at December 31, 2017) of its average net assets in eligible Québec companies. This percentage is gradually increased by 1% per year to reach 65% for the fiscal years beginning after December 31, 2019. In addition, 35% of eligible investments must be made in Québec's resource regions or in eligible cooperatives. If these requirements are not met, the authorized issue of capital for the capitalization period following the end of the fiscal year could be reduced. As at December 31, 2018 and 2017, all of those rules were met.

GOVERNANCE

Board of Directors

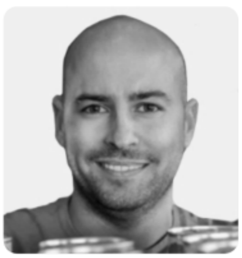
The Board of Directors (the "Board") is made up of 13 directors, 10 of whom are independent, and is chaired by an independent director. The following is a snapshot of the Board as of the date of this report:

Sylvie Lalande,
ASC, C. Dir.
Chair of the Board of CRCD and Corporate Director

Chantal Bélanger,
FCPA, FCGA, ASC
Vice-Chair of the Board of CRCD and Corporate Director

Jacques Jobin,
Lawyer, ASC
Secretary of the Board of CRCD and President, Médiato

Bruno Morin
General Manager of CRCD and Corporate Director



Charles Auger,
Vice-President of Operations, Chocolats Favoris

Marc Barbeau
CPA, CA, M. Fisc.
President and Chief Executive Officer, Ovivo Inc.

Éric Charron
Adm.A, Pl.Fin.
General Manager, Caisse Desjardins de Gatineau

Lucie Demers,
CPA, CGA, CBV
Corporate Director

Marlène Deveaux,
ASC
President and Chief Executive Officer, Revêtement sur métaux inc.

Jean-Claude Gagnon
FCPA, FCA
Strategic Growth Advisor and Corporate Director

Linda Labbé
CPA, CA
Corporate Director

Marcel Ostiguy
Corporate Director

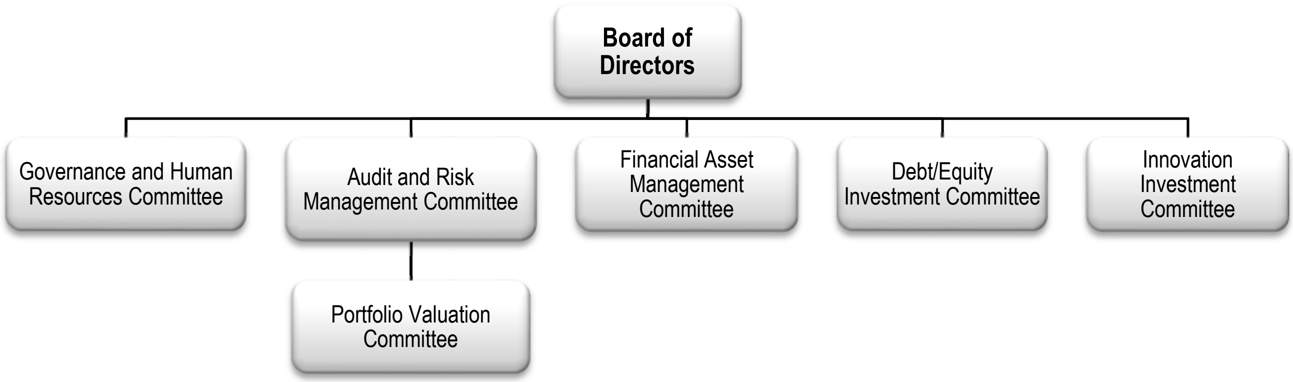
Louis-Régis Tremblay,
Eng., ICD.D
Executive Management Consultant and Corporate Director

The Board has the general authority to manage the affairs of CRCD and oversee the fulfilment of its mission. In this capacity, it is responsible for guiding and overseeing all of CRCD's affairs and risks, including strategic risk oversight.

The Board is involved in and makes decisions on matters such as governance, strategic planning, investment, financial reporting, financial asset management, risk management, capitalization, general meetings of shareholders and contracts.

To this end, the Board is supported by six committees that regularly report to it and make appropriate recommendations. Also, the manager reports on outsourced activities through its executives who attend meetings of the Board and the committees.

The governance structure is as follows:



Other than the specific mandates assigned from time to time by the Board, the main responsibilities of the committees are described below.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

The Corporate Governance and Human Resources Committee is made up of four directors, three of whom are independent.

This Committee's mandate is to provide oversight of the application of the rules relating to governance, independence, conflicts of interest, ethics and professional conduct. It is in particular responsible for drawing up skills and experience profiles for the General Manager and Board members. It also recommends to the Board an evaluation process for the performance of the Chair of the Board, the General Manager of CRCD, the Board, the Committees and CRCD's manager. Furthermore, the Committee ensures that a succession plan is in place for CRCD's General Manager, and for the Chief Operating Officer and other key positions of Desjardins Capital.

This Committee also oversees general reputation risk and conflict of interest risks. It is informed of the reputational risk associated with the investment, which is monitored by the investment committees.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee is made up of three independent directors who have the financial literacy required to carry out their duties, two of whom at least have an accounting designation.

The Committee's mandate is to assist the Board in its oversight and accountability roles on aspects relating to the quality, reliability and integrity of financial reporting and continuous disclosure. It ensures that internal control over financial reporting has been implemented by the manager and is working effectively, and that adequate compliance mechanisms are implemented and maintained by the manager for the legal and statutory requirements that may have a material effect on financial reporting. Its role also includes a component related to the work, performance, independence, appointment and recommendation of the independent auditor.

The Committee is also responsible for monitoring CRCD's overall integrated risk management process and specifically monitors compliance risk at the regulatory and legislative level as well as for shareholder accountability and public disclosure, outsourcing risk (excluding external managers), operational risk related to the processing of transactions and systems, and internal and external fraud risk. It is informed of market risks related to interest rates, foreign currencies and stock markets, which are monitored by the Financial Asset Management Committee and credit and counterparty risk of Investments impacting the Québec economy, which is supervised by the investment committees.

FINANCIAL ASSET MANAGEMENT COMMITTEE

The Financial Asset Management Committee is made up of five directors who possess a range of complementary expertise and sufficient financial, accounting and economic knowledge and skills to fully understand the nature of CRCD's financial assets and the resulting financial risks.

This Committee's mandate is to coordinate and align CRCD's financial asset management to optimize the risk/return balance. The Committee monitors CRCD's performance and ensures that CRCD complies with the legislative and regulatory requirements relating to financial assets. It also oversees the implementation of and compliance with CRCD's Global Financial Asset Management Policy and related guidelines.

The Committee also monitors market risks related to interest rates, foreign currencies and stock markets, geographic and sector concentration risk related to net assets, liquidity risk, and outsourcing risk relating to the use of external managers. It is informed of the sector concentration risk of Investmerts impacting the Québec economy and the credit and counterparty risk of the Investments impacting the Québec economy that are under the supervision of the investment committees.

PORTFOLIO VALUATION COMMITTEE

The Portfolio Evaluation Committee is made up of five members: two independent directors and three external members. The majority of members are independent qualified valuators in accordance with the *Regulation respecting development capital investment fund continuous disclosure*.

The Committee's mandate is to review all relevant information concerning the valuations of CRCD's Investments impacting the Québec economy portfolio on a semi-annual basis in order to provide reasonable assurance to the Audit and Risk Management Committee and the Board that the valuation process complies with the requirements of said Regulation. It also reviews, from time to time, the Fair Value Methodology and recommends to the Audit and Risk Management Committee and the Board such changes as it deems necessary.

INVESTMENT COMMITTEES

The Debt/Equity Investment Committee is made up of six members, three directors and three external members, while the Innovation Investment Committee is made up of five members, two directors and three external members. Five members of the Debt/Equity Investment Committee and the Innovation Investment Committee are independent. The members of these committees are selected based on their expertise and experience in the sectors targeted by the various policies governing investment activities and on their ability to assess the quality of an investment, detect risks and contribute to its future growth in value.

The general mandate of the investment committees is to evaluate, authorize and oversee transactions related to Investments impacting the Québec economy within the limits of the decision-making process approved by the Board and in accordance with CRCD's mission.

The Debt/Equity Investment Committee reviews financing requests for subordinated debt, equity or a combination of subordinated debt and equity. The Innovation Investment Committee reviews financing requests for equity or a combination of subordinated debt and equity which promote technological or industrial innovation or advance new uses for existing technologies.

These committees also have a role in overseeing investment-related reputation risk, sector concentration risk related to Investments impacting the Québec economy, credit and counterparty risk related to Investments impacting the Québec economy, risk associated with the appointment and performance monitoring of external directors and operational risk related to the investment process. They are informed of the strategic risk associated with the Investments impacting the Québec economy portfolio's allocation by region, which is supervised by the Board.

ATTENDANCE RECORD AND COMPENSATION

The following table presents the attendance record and compensation of CRCD's directors and external committee members for fiscal 2018.

Name	Board of Directors	Governance and Human Resources Committee	Audit and Risk Management Committee	Financial Asset Management Committee	Portfolio Valuation Committee	Debt/Equity Investment Committee	Innovation Investment Committee	Compensation
(Number of meetings)	***9***	***6***	***6***	***4***	***2***	***16***	***11***	**$**
Charles Auger	9/9						11/11	30,000
Marc Barbeau	8/8			3/3		12/13		31,000
Chantal Bélanger	9/9	6/6	6/6		2/2			48,000
Ève-Lyne Biron	1/1							5,000
Éric Charron	7/8			3/3				20,150
Lucie Demers	8/8		5/5		1/1			26,350
Roger Demers	1/1			1/1		2/3		8,834
Marlène Deveaux	9/9	6/6	1/1			3/3		31,500
André Gabias	1/1							5,000
Jean-Claude Gagnon	7/9		5/6		1/1			29,500
Jacques Jobin	9/9	2/2		1/1			11/11	39,000
Linda Labbé	6/8			3/3				20,150
Sylvie Lalande	9/9	6/6						70,000
Jean-Claude Loranger	1/1			1/1				6,500
Bruno Morin	8/9	6/6	6/6	4/4		16/16		70,000
Marcel Ostiguy	9/9			4/4				26,000
Louis-Régis Tremblay	8/9		1/1			15/16		36,000
Bernard Bolduc*						14/16		16,000
Guy Delisle*						15/16		16,300
Sébastien Mailhot*					2/2			8,400
Michel Martineau*					2/2			8,400
Muriel McGrath*							10/11	13,600
George Rossi*					2/2			8,400
Michel Rouleau*						16/16		17,200
Thom Skinner*							11/11	14,200
Normand Tremblay*							11/11	14,200
TOTAL COMPENSATION								**619,684**

* External committee member

EXPLANATORY NOTES TO TABLE:

Compensation includes fees in connection with meetings of the Board of Directors and the committees, training sessions and working meetings of the special committees. Only external committee members receive fees for meetings.

Ms. Lalande, Chair of the Board, receives a fixed salary of $70,000 per year.
Mr. Morin, General Manager, receives a fixed salary of $70,000 per year.
Mss. Demers and Labbé and Messrs. Barbeau and Charron have served as directors since March 23, 2018, replacing Ms. Biron and Messrs. Demers, Gabias and Loranger.
Mr. Jobin ceased to serve as a member of the Governance and Human Resources Committee on March 23, 2018.
Ms. Deveaux and Mr. Tremblay ceased to serve as members of the Audit and Risk Management Committee on March 23, 2018.
Ms. Demers has served as a member of the Audit and Risk Management Committee and the Portfolio Valuation Committee since March 23, 2018.
Messrs. Demers, Jobin and Loranger ceased to serve as members of the Financial Asset Management Committee on March 23, 2018.
Ms. Labbé and Messrs. Barbeau and Charron ceased to serve as members of the Financial Asset Management Committee on March 23, 2018.
Mr. Gagnon ceased to serve as a member of the Portfolio Valuation Committee on March 23, 2018.
Ms. Deveaux and Mr. Demers ceased to serve as members of the Debt/Equity Investment Committee on March 23, 2018.
Mr. Barbeau ceased to serve as a member of the Debt/Equity Investment Committee on March 23, 2018.

RISK MANAGEMENT

Sound risk management practices are critical to the success of CRCD. An integrated risk management policy has been put in place to provide the capacity to anticipate and be proactive in mitigating the impact of risk events.

Note to the reader

The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been reviewed by CRCD's independent auditor as part of the audit of the separate financial statements concerning which an independent auditor's report was issued on February 14, 2019.

MARKET RISKS

Market risks pertain to CRCD's role in the capital markets and, indirectly, to general changes in economic conditions. They also pertain to the impact of capital market movements on the value of CRCD's assets. The various risks that make up market risks directly impacting CRCD are listed below.

In accordance with CRCD's global financial asset management approach, the impact of these interest rate and stock market risks and their interrelatedness are taken into account when determining overall asset allocation.

Interest rate risk

Interest rate fluctuations have an impact on the market value of fixed-income securities and real estate funds held in the portfolio for which fair value is determined based on market conditions. The fair value of these assets as at December 31, 2018 was $986.5 million ($813.3 million as at December 31, 2017). Fixed-income securities held in the Other investments portfolio include money market instruments and bonds. Fixed-income securities held in the Investments impacting the Québec economy portfolio include loans and advances and preferred shares.

Money market instruments with a fair value of $51.2 million ($33.9 million as at December 31, 2017) are not valued based on changes in interest rates, given their very short maturities and CRCD's intention to hold them until maturity.

Bonds with a fair value of $642.0 million ($506.2 million as at December 31, 2017) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a $39.9 million decrease in net earnings, representing a 1.9% decrease in CRCD's share price as at December 31, 2018 ($28.0 million for 1.5% as at December 31, 2017). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $42.9 million increase in net earnings, representing a 2.0% increase in the share price ($29.8 million for 1.6% as at December 31, 2017). CRCD's financial asset management strategy aims to diversify the portfolio securities, resulting in limited exposure to long-term bonds. Given that CRCD matches the maturities of bonds held in its portfolio with the average maturity of expected cash outflows, the long-term effect of interest rates on results should be limited.

Real estate funds with a fair value of $96.4 million ($88.8 million as at December 31, 2017) may also be affected by interest rate fluctuations. However, unlike bonds, there is no direct correlation between changes in interest rates and changes in fair value of this asset class.

In the Investments impacting the Québec economy portfolio, loans and advances and preferred shares for which CRCD also holds participating shares in the same company and those that are discounted, totalling a fair value of $225.6 million ($212.1 million as at December 31, 2017), are not sensitive to changes in interest rates. Conversely, the other loans and advances and preferred shares included in the portfolio, totalling a fair value of $197.0 million ($184.3 million as at December 31, 2017), are sensitive to changes in interest rates. However, the interest rate risk related to the other loans and advances and preferred shares held in the portfolio is limited given the amounts in question.

Stock market risk

Stock market trends have a twofold impact on CRCD. In addition to the direct impact on the market values of publicly traded stocks, the valuations of some private portfolio companies may also be affected by changes in stock prices.

As at December 31, 2018, global and Canadian equity funds, valued at $239.5 million ($248.1 million as at December 31, 2017), which were managed by external managers and held in the Other investments portfolio, consisted primarily of listed equities. Accordingly, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $23.9 million increase or decrease in net earnings, representing a 1.1% increase or decrease in CRCD's share price.

The Investments impacting the Québec economy portfolio included listed equities in the amount of $18.4 million ($0.3 million as at December 31, 2017). Accordingly, for these investments a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $1.8 million increase or decrease in net earnings, representing a 0.1% increase or decrease in CRCD's share price.

Currency risk

Changes in currency values have an impact on the activities of a number of CRCD's partner companies. The net effect of an appreciation in the Canadian dollar is not necessarily always negative for these companies, nor is a depreciation necessarily positive. However, rapid fluctuations in the Canadian dollar heighten the difficulties faced by these companies.

Currency fluctuations impact the fair value of assets valued initially in a foreign currency and subsequently translated into Canadian dollars at the prevailing rate of exchange. In the portfolio of Investments impacting the Québec economy and in accounts receivable, assets whose values fluctuate due to changes in foreign exchange rates represented a fair value of $76.4 million or 3.5% of net assets as at December 31, 2018, compared with $91.0 million or 4.7% of net assets at December 31, 2017.

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. A $10 million line of credit has been granted to CRCD for its foreign exchange contract transactions. As at December 31, 2018, CRCD held foreign exchange contracts under which it will be required to deliver US$53.1 million (US$76.1 million as at December 31, 2017) at the rate of CAD/USD 1.3615 (CAD/USD 1.2747 as at December 31, 2017), as well as foreign exchange contracts under which it will be required to deliver €3.6 million (nil as at December 31, 2017) at the rate of CAD/EUR 1.5685 on March 29, 2019. As at December 31, 2018, CRCD had $4.5 million in collateral on its foreign exchange contracts (nil as at December 31, 2017). This collateral was released on January 1, 2019.

As at December 31, 2018, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $1.8 million ($4.7 million as at December 31, 2017). Any fluctuation in the Canadian dollar will therefore not have a significant impact on CRCD's results.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $137.4 million (140.0 million as at December 31, 2017). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a $13.7 million increase (decrease) in net earnings, representing a 0.7% increase (decrease) in CRCD's share price.

CREDIT AND COUNTERPARTY RISKS

In pursuing its Investments impacting the Québec economy mission, CRCD is exposed to credit and counterparty risks related to potential financial losses if a partner company fails to fulfill its commitments or experiences a deterioration of its financial position. By diversifying its investments by investment profile, and by limiting the potential risk of each partner company, CRCD has limited portfolio volatility due to the possibility of negative events.

CRCD does not generally require guarantees to limit credit risk on its loans. Requiring guarantees would contravene the eligibility rules for Investments impacting the Québec economy.

The maximum credit risk is the carrying amount of the financial instruments at the end of the reporting period, in addition to funds committed but not disbursed.

Investments impacting the Québec economy, except those carried out through funds, are first ranked by risk from 1 to 9 based on the criteria defined by Moody's RiskAnalyst tool. Subsequently, all the investments are reviewed monthly to identify those that meet the criteria for a ranking of 10.

Investments impacting the Québec economy made as funds are reported in the Low to acceptable risk category due to the structure of this type of product, and because they generally involve no leverage.

The following table shows a slight increase in the percentage of investments with a risk rating of 7 and above compared with fiscal 2017. The percentage breakdown of the Investments impacting the Québec economy portfolio ranked by risk is as follows (fair value amounts):

		As at December 31, 2018		As at December 31, 2017	
Rating		**(in thousands of $)**	**(as a %)**	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**1,031,104**	**95.5**	1,013,033	98.0
7 to 9	At risk	**33,458**	**3.1**	15,267	1.5
10	High risk and insolvent	**15,507**	**1.4**	5,651	0.5

Furthermore, CRCD is exposed to credit risk on financial instruments not recognized in assets, which are funds committed but not disbursed in connection with the Investments impacting the Québec economy portfolio. The table below shows the breakdown, by risk rating, of funds committed but not disbursed as at the reporting date:

		As at December 31, 2018		As at December 31, 2017	
Rating		**(in thousands of $)**	**(as a %)**	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**191,969**	**99.9**	183,606	100.0
7 to 9	At risk	**-**	**-**	-	-
10	High risk and insolvent	**200**	**0.1**	-	-

For the bond portfolio, which represented 62.4% of the fair value of the Other investments portfolio (57.6% as at December 31, 2017), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

	As at December 31, 2018	As at December 31, 2017
Rating	(in thousands of $)	(in thousands of $)
AAA	295,820	224,582
AA	242,163	186,001
A	56,401	47,175
BBB	47,571	45,585
BB	-	2,841

Credit risk ratings are established by recognized credit agencies.

Consistent with the global financial asset management policy, money market instruments have a minimum credit rating of R-1 (low), thus limiting the credit risk associated with these financial instruments.

Counterparty risk is limited to the immediate short term and is associated with CRCD's counterparty when entering into cash transactions.

Counterparty risk is low for foreign exchange contracts given the amounts in question and that the contract counterparty is FCDQ.

CONCENTRATION RISKS

Concentration risks arise from the possibility that a significant portion of CRCD's Investments impacting the Québec economy portfolio or Other investments portfolio might become concentrated in a single entity, region or financial product, which could render CRCD vulnerable to any financial difficulties experienced by such entity, region or financial product.

Risk of concentration in an entity

Pursuant to its constituting act, policies and internal guidelines, the amount that CRCD may invest in any one entity or in a group of associates is limited to a percentage of its assets for both the Investments impacting the Québec economy and Other investments portfolios.

The concentration of the five largest Investments impacting the Québec economy and the five largest Other investments is as follows (percentages are based on fair asset value and funds committed but not disbursed):

	As at December 31, 2018		As at December 31, 2017	
	% of portfolio	% of net assets	% of portfolio	% of net assets
Investments impacting the Québec economy(1)	33.5	19.7	35.5	22.2
Other investments(2)	48.8	23.1	46.8	21.1

(1) CRCD's interest in the ecosystem funds accounted for 63% (63% as at December 31, 2017) of the five largest Investments impacting the Québec economy.

(2) Government issuers and issues guaranteed by government entities represented 70% (62% as at December 31, 2017) of the five largest issuers or counterparties in the Other investments portfolio.

Risk of concentration by region

In keeping with its mission of Québec economic development, the Investments impacting the Québec economy portfolio chiefly comprises businesses whose employees are, in the majority, residents of Québec. Furthermore, at least 35% of its investments must be made in companies located in the resource regions or in eligible cooperatives. Portfolio performance therefore depends heavily on economic conditions in Québec and the resource regions. As at December 31, 2018, the Investments impacting the Québec economy portfolio represented 51.3% of net assets (52.8% as at December 31, 2017).

CRCD has adopted a global financial asset management and investment guidelines policy to govern the Other investments portfolio activities which currently limit the option of holding foreign securities. As at December 31, 2018, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in global equity funds, plus 86.8% in Canadian securities (84.3% as at December 31, 2017). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2018, the Other investments portfolio represented 48.0% of net assets (45.8% as at December 31, 2017).

Risk of concentration in a financial product

The global financial asset management policy favours global integrated management of the Investments impacting the Québec economy and Other investments portfolios. The policy establishes limits by asset class and these limits are applied by the manager. As at December 31, 2018, bond securities represented 29.6% of net assets (26.0% as at December 31, 2017). The higher percentage allocated to this asset class stems from the significant divestments carried out at the end of the year.

The portfolio summary presented at the end of this MD&A also provides relevant information for assessing concentration risk.

LIQUIDITY RISKS

CRCD must maintain sufficient liquid assets to fund share redemptions and committed Investments impacting the Québec economy. If it failed to do so, CRCD would be dependent on the markets and could be forced to carry out transactions under unfavourable conditions. With liquid investments that should represent approximately 30% of assets under management, and using a management approach that ensures that the average maturity of bonds is close to the average maturity of expected outflows, CRCD can confirm that liquidity risks are adequately covered. Furthermore, credit facilities have been put in place to provide greater cash management flexibility. The credit facilities were undrawn during fiscal 2018 and 2017.

Given the anticipated increase in the balance of the redeemable shares of CRCD, in addition to the initiatives put in place to stimulate share redemptions, new measures announced by the Québec government in March 2018 allow eligible CRCD shareholders to commit their redeemable capital for an additional seven-year period. With an authorized annual amount of $100 million, this initiative will ensure greater availability of capital for Investments impacting the Québec economy and reduce cash requirements related to share redemptions. See the Capital raising section for more information.

CRCD, through its balanced financial strategy and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

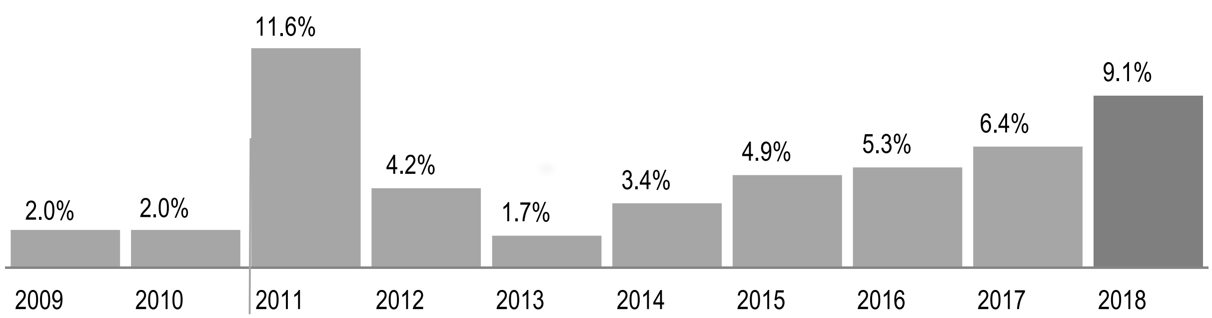
PAST PERFORMANCE

This section presents CRCD's historical returns. These returns do not include the $50 administration fee paid by shareholders or the tax credit they enjoy as a result of their investment. Past performance is not necessarily indicative of future returns.

ANNUAL RETURNS

The following chart shows CRCD's annual returns and illustrates the change in returns from one period to the next for the past ten fiscal years. Annual return is calculated by dividing income (loss) per share for the period by the share price at the beginning of the period.

Annual return



COMPOUNDED RETURN OF THE COMMON SHARE AS AT DECEMBER 31, 2018

The compounded return is calculated based on the annualized change in the price of the share over each of the periods shown.

10 YEARS	7 YEARS	5 YEARS	3 YEARS	1 YEAR
4.9%	4.8%	5.6%	6.7%	8.9%

PORTFOLIO SUMMARY

CORE INVESTMENT PROFILES

As at December 31, 2018, the assets of CRCD's Investments impacting the Québec economy and Other investments portfolios at fair value were as follows:

Investment profile	% of net assets
Investments impacting the Québec economy*	
Debt	15.0
Equity	30.1
Venture capital	3.3
External funds	1.9
Other asset items held by ecosystem funds	1.0
Total – Investments impacting the Québec economy	**51.3**
Other investments	
Cash and money market instruments	2.9
Bonds	29.6
Global equity funds	6.9
Canadian equity funds	4.2
Real estate funds	4.4
Total – Other investments	**48.0**

* Including foreign exchange contracts

Net assets are made up of 99.3% investment profiles and 0.7% other asset items.

MAIN INVESTMENTS HELD

As at December 31, 2018, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers	% of net assets
Investments impacting the Québec economy (14 issuers)*	31.1
Government of Canada	8.1
Canada Housing Trust	4.5
Province of Québec	3.6
Desjardins Global Dividend Fund	3.4
Desjardins IBrix Low Volatility Global Equity Fund	3.4
Province of Ontario	3.2
Bentall Kennedy Prime Canadian Property Fund	2.2
Fiera Properties CORE Fund	2.2
BMO Low Volatility Canadian Equity ETF	2.1
Fidelity Canadian Low Volatility Equity Institutional Trust	2.1
Province of Manitoba	1.3

* The 14 issuers who collectively represent 31.1% of CRCD's net assets are:

- Agropur Cooperative
- Amisco Industries Ltd.
- Avjet Holding Inc.
- Capital croissance PME II s.e.c.
- Congebec Logistic II Inc.
- Desjardins Capital PME s.e.c.
- Desjardins-Innovatech S.E.C
- Exo-s Inc.
- Fournier Industries Group Inc.
- Gecko Alliance Group Inc.
- Groupe Solotech inc.
- La Coop fédérée
- Norbec Group Inc. (10080233 Canada Inc.)
- Télécon Inc.

This summary of CRCD's portfolio may change at any time due to transactions carried out by CRCD.

February 14, 2019

MANAGEMENT'S REPORT

February 14, 2019

CRCD's separate financial statements together with the financial information contained in this annual report are the responsibility of the Board of Directors, which delegates the preparation thereof to management.

In discharging its responsibility for the integrity and fairness of the financial statements, management has ensured that the manager maintains an internal control system to provide reasonable assurance that the financial information is reliable, that it provides an adequate basis for the preparation of the financial statements and that the assets are properly accounted for and safeguarded.

Furthermore, CRCD's General Manager and Chief Financial Officer have certified that the method used to determine the fair value of each of the Investments impacting the Québec economy complies with the requirements of the Autorité des marchés financiers and have confirmed the reasonableness of the aggregate fair value of the portfolio of Investments impacting the Québec economy.

The Board of Directors fulfils its responsibility for the financial statements principally through its Audit and Risk Management Committee. The Committee meets with the independent auditor appointed by the shareholders with and without management present to review the financial statements, discuss the audit and other related matters and make appropriate recommendations to the Board of Directors. The Committee also analyzes the management discussion and analysis to ensure that the information therein is consistent with the financial statements.

The financial statements present the financial information available as at February 14, 2019. These statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and audited by PricewaterhouseCoopers LLP.

The Board of Directors has approved the separate financial statements, together with the information in the management discussion and analysis. The financial information presented elsewhere in this report is consistent with CRCD's separate financial statements.

(signed) Yves Calloc'h, CPA, CA

Chief Financial Officer