FINANCIAL REVIEW

This Financial Review seeks to provide an in-depth understanding of the operations of Capital régional et coopératif Desjardins (the "Company"). It should be read in conjunction with the audited consolidated annual financial statements and the accompanying notes. 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 the Company's operations, the associated risks and uncertainties could cause actual results to differ from those anticipated in forward-looking statements. The Company disclaims any intention or obligation to update or revise such statements based on any new information or event that may occur.

1. MAIN ACTIVITIES

On the initiative of the Desjardins Group, the Company was founded on July 1, 2001, following the adoption of its incorporating act (the "Act") by Québec's National Assembly on June 21, 2001.

VISION

The Company aims to achieve recognition as the preferred strategic partner of businesses by creating wealth and contributing to sustainable economic development across Québec.

MISSION

- Contribute to Québec's economic development and take an active part in the growth of the following regions: Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean (the "resource regions").
- Inject venture capital into companies and cooperatives and provide expert advice to support their start-up, growth and expansion.
- Generate returns that will encourage shareholders to reinvest in the Company.

In the pursuit of its vision and mission, the Company follows three main guidelines:

- Contribute proactively to the economic development of all Québec regions by meeting the criteria set out in the Act and ensure the Company's long-term viability.
- Generate returns that will encourage shareholders to reinvest in the Company by offering companies and cooperatives financial products that meet their needs and by ensuring proactive portfolio management.
- Optimize the business relationship with Desjardins with a view to capitalizing on its networks and expertise and meeting the target objectives.

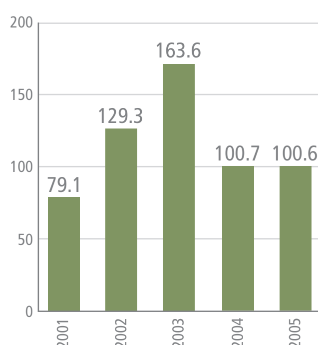
1.1. CAPITAL RAISING

The Company sells its shares exclusively through the Desjardins caisse network. As at December 31, 2005, this distribution network consisted of 530 Desjardins caisses and 862 service centres, for a total of 1,392 sales outlets.

Since it began selling shares in November 2001, the Company has enjoyed remarkable success. As a rule, its share capital may be increased by $150 million per capitalization period. However, in the past, the Government of Québec limited the annual share capital increase for fiscal 2003, 2004 and 2005 to $75 million, $100 million and $100 million respectively.

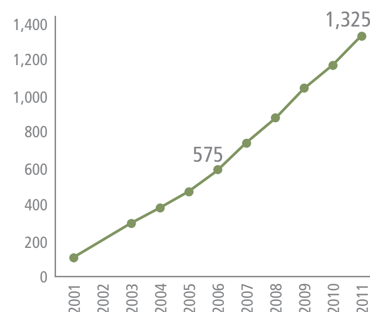
The Company sold its entire 2005 issue in a week, raising $100.6 million during fiscal 2005 and bringing the total number of shareholders as at December 31, 2005 to 115,456 and the share capital to $572 million, considering common share redemptions totalling $1.2 million. As at December 31, 2005, the Company had 56,600,254 common shares outstanding.

NET SHARE CAPITAL RAISED (IN $M)
(ANNUAL)



In accordance with regulatory requirements, the annual limit for the share capital increase will be $150 million in fiscal 2006 (ending February 28, 2007).

ANNUAL REGULATORY MAXIMUM FOR SHARE ISSUES (IN $M) (CUMULATIVE)



A special tax is payable by the Company if it fails to comply with these limits. Control mechanisms have thus been implemented by the Company to ensure compliance.

1.2. INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

During fiscal 2005, the Company made $112.1 million in disbursements, while Société Innovatech Régions ressources contributed an investment portfolio valued at $26.3 million. As a result, the fair value of the Company's investments impacting the Québec economy totalled $244.1 million as at December 31, 2005 (on a consolidated basis). Indeed, on July 4, 2005, Desjardins – Innovatech S.E.C. was created via a $30 million investment in units by the Company, representing a 53.1% partnership interest, and via the contribution of an investment portfolio by the other partner, Société Innovatech Régions ressources. Desjardins – Innovatech S.E.C. is consolidated in the Company's financial statements. Unless otherwise indicated, the financial information in this Financial Review is presented on a consolidated basis.

In accordance with Canadian accounting practices, the Company accounts for its investments impacting the Québec economy at their fair value. In fiscal 2005, two comprehensive portfolio reviews were carried out, with one covering the six-month period ended June 30 and the other covering the six-month period ended December 31, 2005. As a result of these reviews, 60 investments were revalued. Considering the $8.2 million gain upon disposal of investments impacting the Québec economy, the Company recorded in its results for the year a $2.8 million increase in unrealized depreciation, for a cumulative portfolio depreciation of $15.3 million, as reported in the balance sheet as at December 31, 2005. This depreciation is broken down as follows:

DISBURSEMENTS BY SECTOR	COST $M	APPRECIATION (DEPRECIATION) $M	%
Cooperatives	34.4	(0.4)	(1.2)
Industrial	115.6	(4.0)	(3.5)
Health and biotechnology	51.4	(6.9)	(13.4)
Telecommunications	19.7	2.1	10.7
Information technology	37.5	(6.3)	(16.8)
Investment funds	0.8	0.2	25.0
Total	259.4	(15.3)	(5.9)

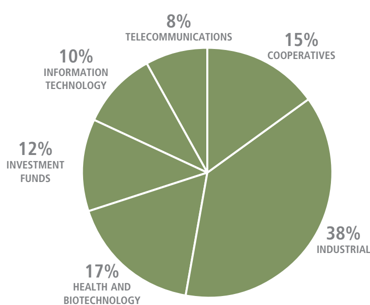
DISBURSEMENTS BY DEVELOPMENT STAGE	COST $M	APPRECIATION (DEPRECIATION) $M	%
Early stage	10.9	(0.8)	(7.3)
Start-up	91.5	(20.5)	(22.4)
Growth	76.7	(3.6)	(4.7)
Mature	79.5	9.4	11.8
Investment funds	0.8	0.2	25.0
Total	259.4	(15.3)	(5.9)

Once again this year, the fair-value valuation of the investment portfolio had a negative impact on the Company's results as the Company was in the final phase of constituting its investment portfolio.

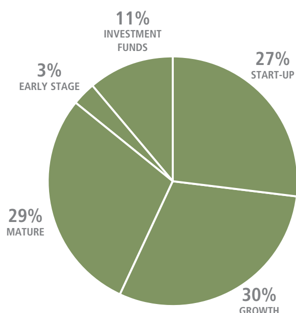
Due to the nature of the Company's operations, i.e., venture capital investments in small and medium-sized enterprises, problems are more likely to occur early in the investment cycle, whereas successes are more likely toward the end of the cycle, which generally lasts from five to eight years. Consequently, the prospect of an increase in the investment value should normally be considered over a period of five to eight years.

The Company and its manager, Desjardins Venture Capital, have adopted investment policies and strategies designed to promote the interests of the Company's shareholders. In this regard, the economic sector and the development stage of the companies in which the Company invests are clearly defined. Moreover, monitoring is ensured by the Company's internal and external auditors and by those of its manager in connection with their audit.

TOTAL COMMITMENTS
AT FAIR VALUE BY SECTOR
AS AT DECEMBER 31, 2005



TOTAL COMMITMENTS AT FAIR
VALUE BY DEVELOPMENT STAGE
AS AT DECEMBER 31, 2005



As part of its business development activities, the Company's manager focuses from time to time on different economic sectors or companies at different development stages to ensure investment portfolio balance. In order to generate both short and long-term returns for the Company's shareholders, the range of financial instruments used may also vary. As part of their 2006 investment objectives, the Company and its manager will make additional investments in fixed-income securities and will continue to increase the proportion of investments in growth and mature-stage companies. As at December 31, 2005 and 2004, the composition of the investment portfolio in the balance sheets was as follows:

BY DEVELOPMENT STAGE (FAIR VALUE)	2005 %	2004 %
Early stage	4.1	4.2
Start-up	29.1	36.6
Growth	29.9	34.9
Mature	36.5	23.8
Investment funds	0.4	0.5
Total	100.0	100.0

BY FINANCIAL INSTRUMENT (FAIR VALUE)	2005 %	2004 %
Fixed-income securities	40.6	24.3
Equity securities	59.4	75.7
Total	100.0	100.0

The investment activities should be measured taking into account the change in funds committed but not disbursed. During fiscal 2005, new commitments totalled $116.5 million, of which $112.1 million was disbursed, compared with $116.9 million and $85.9 million respectively in 2004.

The investment activities have now reached a recurring annual level that will enable the Company to meet the investment requirements set out in the Act. These statutory requirements are applicable as of the fiscal year beginning January 1, 2006.

As at December 31, 2005, total commitments amounted to $324.4 million in 178 companies, of which $259.4 million was disbursed to 170 portfolio companies. Commitments by region were as follows:

COMMITMENTS BY REGION	COST $M	COST %	NUMBER OF COMPANIES
Abitibi-Témiscamingue*	4.0	1.2	10
Bas-Saint-Laurent*	11.0	3.4	19
Capitale-Nationale	16.4	5.1	13
Central Québec	0.8	0.2	1
Chaudière-Appalaches	5.6	1.7	7
Côte-Nord*	3.9	1.2	3
Eastern Townships	56.8	17.5	23
Gaspésie–Îles-de-la-Madeleine*	3.0	0.9	7
Lanaudière	3.0	0.9	4
Laurentians	13.2	4.1	4
Laval	7.5	2.3	5
Mauricie*	10.3	3.2	6
Montérégie	5.2	1.6	6
Montréal	157.8	48.7	38
Outaouais	1.7	0.5	3
Saguenay–Lac-Saint-Jean*	23.3	7.2	28
Outside Québec	0.9	0.3	1
Total	324.4	100.0	178

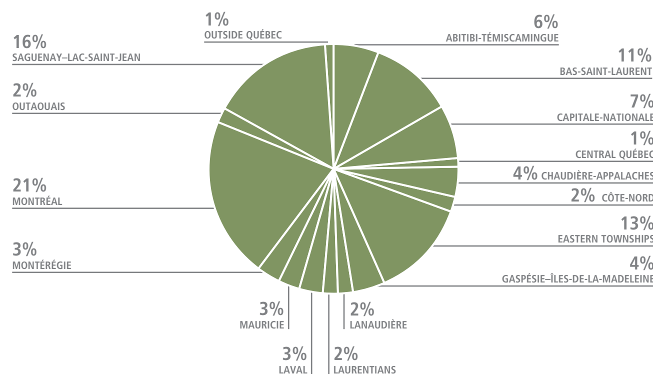
*Resource regions

According to the statutory requirements taking effect as of fiscal 2006, the Company's average investments in eligible entities (on a non-consolidated basis) must represent at least 60% of its average net assets for the preceding year. Furthermore, at least 35% of that percentage (60%) must be invested in entities in Québec's resource regions or in cooperatives. If these criteria are not met, the Company is subject to penalties. As at December 31, 2005, the Company's investments impacting the Québec economy were as follows:

COMMITMENTS ON A NON-CONSOLIDATED BASIS	FAIR VALUE $M	FAIR VALUE %
Investments in resource regions	86.3	27.9
Investments in cooperatives	47.4	15.4
Sub-total	133.7	43.3
Other eligible investments	166.3	53.8
Sub-total, eligible investments	300.0	97.1
Non-eligible investments	9.1	2.9
Total	309.1	100.0

Non-eligible investments consisted primarily of debentures and secured loans. Although these investments are not part of the Company's mission, it is sometimes necessary to request guarantees in order to protect the capital already invested in companies that may experience financial difficulties.

REGIONAL BREAKDOWN OF COMPANIES
AS AT DECEMBER 31, 2005



As at December 31, 2005, the Company had reached 93.7% of the statutory target for eligible investments and 104.2% of the statutory target for investments in resource regions and cooperatives.

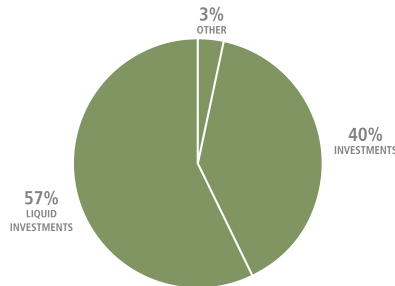
The Company expects to meet its investment objectives on schedule, in particular by maintaining a presence in all Québec regions via its manager's 18 offices.

The Company's priority is to ensure business development in all Québec regions, drawing on the expertise of investment professionals specializing in the industrial, cooperative, health and biotechnology, information technology and telecommunications sectors. The Company also has direct access to financial advisors in the Desjardins caisse network, Desjardins Business Centre managers and directors in the various regions. As a result, more than 6,000 people will be contributing directly or indirectly to the pursuit of the Company's 2006 investment objectives.

1.3. INVESTMENTS IN SECURITIES

Liquid portfolio management applies to the portion of the Company's assets not invested in eligible entities, including liquid assets temporarily available prior to investment in eligible entities.

TOTAL ASSET BREAKDOWN
AS AT DECEMBER 31, 2005



In addition to fulfilling its statutory mandate of fostering regional and cooperative development across Québec, the Company seeks to maximize its shareholders' total returns while reducing the risks of capital losses. As part of its global approach, the Company integrates the management of its portfolio of investments in eligible entities ("investment portfolio") with that of its securities portfolio ("liquid portfolio"). As a result, the Company's overall investment portfolio is balanced, in addition to offering shareholders strong potential returns over the entire holding period, regardless of economic conditions.

To achieve its objectives, the Company has elected to use a global management approach. This differs from mutual fund management and is more similar to cash or pension fund management. Under this approach, the average maturity of total assets is matched with the average maturity of expected fund outflows.

Prior to making asset selection decisions affecting the liquid portfolio, the Company considers the statutory requirements to which it is subject, together with the structure of its portfolio of investments in eligible entities. The main considerations are as follows:

- The Company's shareholders must hold their shares for at least seven years.
- Investments in eligible entities have target maturities of five to eight years and are generally more risky and less liquid.
- Returns on investments in eligible entities tend to be linked to economic cycles.
- The Company is subject to the capital tax and the corporate income tax.

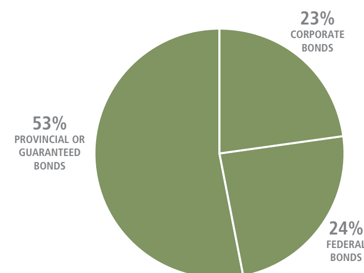
To enhance total portfolio returns, the Company's manager is also authorized to take market positions using the financial instruments stipulated in the investment policy and to carry out purchase/redemption transactions. Such trades are made in an overlay portfolio and their potential risk limits are defined and overseen by the Company's Investment Committee (liquid portfolio) and tracked daily by the Company's manager. As at December 31, 2005, the Company had no market positions.

As regards the management of its liquidities and securities investments, the Company deals mainly with Caisse centrale Desjardins, Desjardins Securities and Desjardins Trust.

As at December 31, 2005, the Company's securities portfolio (including cash and cash equivalents) totalled $362.9 million and consisted primarily of highly liquid bonds with low credit risks. As at December 31, 2005, almost 75% of the portfolio securities were government-guaranteed.

In accordance with new accounting standards, the Company adopted the fair value method of accounting for investments, effective January 1, 2005. As a result of this change, the balance of securities investments and the unrealized appreciation (depreciation) both increased by $1.5 million. The adoption of this standard is likely to lead to greater fluctuations in the Company's results and in net value per share since the liquid portfolio is directly influenced by changes in market interest rates.

LIQUID PORTFOLIO BREAKDOWN
AS AT DECEMBER 31, 2005
AT FAIR VALUE



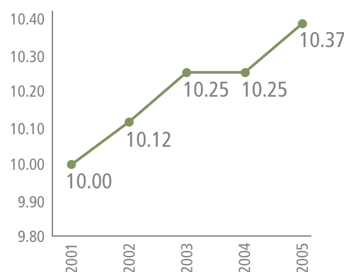
Interest income (primarily from bonds) is recognized at the bond effective rate at the acquisition date. Gains on disposal are recorded at the date of sale and correspond to the difference between the proceeds of disposal and the unamortized cost, regardless of the unrealized appreciation (depreciation) from prior years, which is reversed and reflected in the change in unrealized appreciation (depreciation) for the current period. Once again this year, interest income from securities investments and changes in appreciation (depreciation), both realized and unrealized, were important revenue sources for the Company in 2005, totalling $15.3 million and $2.7 million respectively.

2. SELECTED FINANCIAL INFORMATION

2.1. ANNUAL INFORMATION

The following table provides selected audited annual financial information concerning the Company. This information is taken from the Company's audited consolidated financial statements, and the accompanying notes are incorporated herein by reference. This information should be read in conjunction with these financial statements.

NET VALUE PER SHARE
AS AT DECEMBER 31 (IN $)



ANNUAL FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF $, EXCEPT NUMBER OF SHARES AND PER SHARE DATA)

	2005	2004	2003
DATA FROM STATEMENTS OF EARNINGS			
Revenue	31,076	18,764	16,706
Expenses other than non-refundable grants	21,836	17,658	12,868
Non-refundable grants	-	-	(5,015)
Earnings before income taxes and minority interest	9,240	1,106	8,853
Income taxes	2,676	1,320	3,065
Earnings (loss) before minority interest	6,564	(214)	5,788
Minority interest	(187)	-	-
Net earnings (loss) for the year	6,751	(214)	5,788
Weighted average number of common shares	55,020,750	44,453,373	32,823,844
Net earnings (loss) per common share[1]	0.12	-	0.18
DATA FROM BALANCE SHEETS			
Investments impacting the Québec economy	244,114	135,911	61,438
Total assets	617,130	483,247	381,959
Liabilities	30,415	2,654	1,806
Shareholders' equity	586,715	480,593	380,153
Number of outstanding common shares	56,600,254	46,905,260	37,085,339
Net value per common share	10.37	10.25	10.25
DATA FROM CASH FLOW STATEMENTS			
Cash flows from investing activities[2]	(92,268)	(103,669)	(161,307)
Cash flows from financing activities[3]	99,371	100,654	163,626

(1) Net earnings (loss) per share were calculated using the weighted average number of common shares outstanding during the year.

(2) Including investments impacting the Québec economy and bond/money market investments.

(3) Including the proceeds from the share issue and the cost of share redemptions.

2.2. INTERIM INFORMATION

The following table provides selected interim financial information concerning the Company. This information is taken from the Company's audited consolidated financial statements, and the accompanying notes are incorporated herein by reference. This information should be read in conjunction with the financial statements.

2005

DATA FROM STATEMENTS OF EARNINGS	1ST HALF	2ND HALF	YEAR
(IN THOUSANDS OF $, EXCEPT NUMBER OF SHARES AND PER SHARE DATA)	(AUDITED)	(DIFFERENCE)	(AUDITED)
Revenue	15,163	15,913	31,076
Expenses other than non-refundable grants	11,065	10,771	21,836
Non-refundable grants	-	-	-
Earnings before income taxes and minority interest	4,098	5,142	9,240
Income taxes	1,288	1,388	2,676
Earnings before minority interest	2,810	3,754	6,564
Minority interest	-	(187)	(187)
Net earnings	2,810	3,941	6,751
Weighted average number of common shares	53,415,554	56,625,946	55,020,750
Net earnings per common share[1]	0.05	0.07	0.12

2004

DATA FROM STATEMENTS OF EARNINGS	1ST HALF	2ND HALF	YEAR
(IN THOUSANDS OF $, EXCEPT NUMBER OF SHARES AND PER SHARE DATA)	(AUDITED)	(DIFFERENCE)	(AUDITED)
Revenue	9,116	9,648	18,764
Expenses other than non-refundable grants	8,984	8,674	17,658
Non-refundable grants	-	-	-
Earnings before income taxes	132	974	1,106
Income taxes	250	1,070	1,320
Net loss	(118)	(96)	(214)
Weighted average number of common shares	41,976,438	46,930,308	44,453,373
Net loss per common share[1]	-	-	-

2003

DATA FROM STATEMENTS OF EARNINGS	1ST HALF	2ND HALF	YEAR
(IN THOUSANDS OF $, EXCEPT NUMBER OF SHARES AND PER SHARE DATA)	(AUDITED)	(DIFFERENCE)	(AUDITED)
Revenue	10,943	5,763	16,706
Expenses other than refundable grants	6,757	6,111	12,868
Refundable grants	(2,661)	(2,354)	(5,015)
Earnings before income taxes	6,847	2,006	8,853
Income taxes	1,834	1,231	3,065
Net earnings	5,013	775	5,788
Weighted average number of common shares	28,769,848	36,877,839	32,823,844
Net earnings per common share[1]	0.17	0.02	0.18

(1) Net earnings (loss) per common share were calculated using the weighted average number of common shares outstanding during the period or year.

2.3. DIVIDENDS

The Company has a policy of reinvesting its annual income from operations and paying no dividends to shareholders. This policy seeks to increase the capital available for investment in eligible entities and to create share appreciation.

3. LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2005, the Company invested $112.1 million in Québec entities, primarily using cash flows from capital raising initiatives and from the disposal of certain investments. In 2004, cash flows from capital raising were sufficient to cover investments in Québec entities ($85.9 million) and to make additional bond investments ($18.7 million). Management anticipates that the liquid portfolio will remain stable at its current level over the next several years, until the primary shareholder redemptions begin in 2008.

Given the management approach of matching the average maturity of total assets with the average maturity of expected cash outflows, the Company does not anticipate any shortfall in liquidities in the short or medium term.

4. OPERATING RESULTS

This analysis aims to provide shareholders with an overview of the major changes that took place between the year ended December 31, 2005, and those ended December 31, 2004 and 2003.

4.1. REVENUE

DATA FROM STATEMENTS OF EARNINGS	2005	2004	2003
(IN THOUSANDS OF $)			
REVENUE			
Liquid investments			
Current revenue	15,295	15,155	13,045
Realized or unrealized appreciation (depreciation)	2,720	10,132	4,468
	18,015	25,287	17,513
Investments			
Current revenue	7,474	4,514	1,893
Realized or unrealized appreciation (depreciation)	5,366	(11,331)	(4,171)
	12,840	(6,817)	(2,278)
Membership dues	221	294	1,471
Revenue	31,076	18,764	16,706

Once again, the liquid investment portfolio made a significant contribution to the Company's operating revenue, totalling $18.0 million in 2005, compared with $25.3 million and $17.5 million in 2004 and 2003 respectively. In addition to current revenue, the liquid portfolio generated capital gains in 2003 and 2004, thanks to the investment strategy and lower market interest rates. As a result of the integrated risk management approach, these gains helped offset investment losses and operating expenses. Due to interest rate stability, no significant capital gains were generated in 2005.

The Company began making investments in eligible entities in February 2002, with investment activities generating losses of $2.3 million in 2003 and $6.8 million in 2004. In 2005, however, Miranda Technologies' successful initial public offering, combined with the growing proportion of fixed-income securities generating current revenue, reversed this trend as investment activities generated $12.8 million in revenue. As mentioned previously, due to the nature of the investments in question (i.e., venture capital investments in small and medium-sized enterprises), problems are more likely to occur early in the investment cycle, whereas successes are more likely toward the end of the cycle, which is generally estimated to last from five to eight years. The Company's results clearly reflect this trend.

Revenue from membership dues, which are payable by all new shareholders upon opening an account, is directly related to capital raising initiatives and to the number of Company shareholders. Since a critical mass of more than 100,000 shareholders was reached in September 2003, membership revenue was much less significant in 2004 and 2005, with this trend likely to continue in the future. As at December 31, 2005, the Company had over 115,000 shareholders.

4.2. EXPENSES

(IN THOUSANDS OF $)	2005	2004	2003
EXPENSES			
Management fees	17,950	14,112	9,779
Other operating expenses	731	736	599
Shareholder services	1,884	2,167	1,952
Capital tax	536	88	81
Amortization of software	735	555	457
	21,836	17,658	12,868
Non-refundable grants	-	-	(5,015)
Expenses	21,836	17,658	7,853

Expenses consist mainly of costs related to operations and shareholder services. These expenses were partially offset in 2003 by non-refundable grants to the Company.

OPERATING EXPENSES

Management fees in fiscal 2005 amounted to $17.9 million, or 96.1% of total operating expenses of $18.7 million, compared with $14.1 million or 95.0% of total operating expenses in 2004, and $9.8 million or 94.2% in 2003.

The billing basis is comparable from one period to another since no changes were made to the management agreement. Under this agreement, the management fees are equivalent to 3% of the average assets' net value of the Company's non-consolidated assets, less any amounts payable for the acquisition of investments and any deferred non-refundable grants. The management fees incurred by the Company are adjusted to avoid double billing on the Company's interest in Desjardins – Innovatech S.E.C. In addition, the management fee amount will be reduced to 2.5% as of the fiscal year following that in which the Company's net asset value reaches $750 million. At the current rate of authorized capital raising ($150 million per year), the Company expects that this reduced rate will be applicable as of fiscal 2008.

Desjardins – Innovatech S.E.C., the Company's subsidiary, is managed and operated by Desjardins Venture Capital, its general partner and the Company's manager. Desjardins – Innovatech S.E.C. has undertaken to make yearly management fee payments equalling 3% of the average assets' net value, less any amounts payable for the acquisition of investments and any provisions for guarantees. An additional amount equal to 20% of the return attributable to the partnership in excess of the average annual base return (set at 7.5%) is payable when the partnership is wound up.

SHAREHOLDER SERVICES

The Company has appointed Desjardins Trust Inc. as shareholder registrar and share transfer agent; Desjardins Trust also acts as an intermediary for various shareholder support services. Since the Company began operations, Desjardins Trust has represented the largest component of the Company's shareholder services expenses. For fiscal 2005, Desjardins Trust's services amounted to nearly $1.6 million, or 86.6% of the Company's shareholder services expenses; this level is in line with that recorded in 2004. In the Company's view, the trustee fees have stabilized at a recurring level because the number of shareholders is holding very steady from year to year.

The Company has entrusted the Fédération des caisses Desjardins du Québec with the activities related to the distribution of the Company's shares across the Desjardins caisse network.

Other than certain direct expenses, no commissions or other forms of remuneration are payable to any person as regards the distribution of the Company's shares.

CAPITAL TAX

The tax liability was minimized by selecting securities that may be deducted in the computation of the Québec capital tax and that ensure investment diversification and security. As at December 31, 2005, the liquid portfolio was entirely comprised of eligible investments for Québec capital tax purposes. However, as a result of the ineligible portion of investments impacting the Québec economy, the capital tax expense increased in 2005.

NON-REFUNDABLE GRANTS

The Company received matching $10.0 million grants from the Desjardins Group and the ministère de l'Industrie et du Commerce du Québec. These grants were designed to provide the Company with start-up assistance and to help it cover current expenses related to its organizational activities.

The deferred grant balance totalled $5.0 million as at December 31, 2002 and was fully amortized during fiscal 2003.

AMORTIZATION OF SOFTWARE

Amortization of software gradually increased from 2003 to 2005 as software developed for the Company was brought into service. No software was commissioned in 2005; in 2006, the Company will review the need for further investments in software development with a view to facilitating the processing of share redemptions, which are expected to increase as of 2008.

INCOME TAXES

Income taxes amounted to $2.7 million in 2005, compared with $1.3 million in 2004 and $3.1 million in 2003. Prior to June 13, 2003, the Company was authorized to deduct an amount not exceeding its taxable income for a given year when calculating its taxable income in Québec. As a result, the Company had no Québec income tax liability prior to that date. On June 12, 2003, the Company became subject to Québec income tax.

In addition to current income taxes, future income taxes represent a major component of the Company's tax liability. Revenue type also has a significant impact on the income tax expense since capital gains and business income are taxed at different rates.

As at December 31, 2005, approximately 25% of the liquid portfolio consisted of deductible investments for the purposes of the large corporation tax. The Company was thus able to reduce the tax impact in this regard.

NET EARNINGS (LOSS)

In the past, the Company used the grants it received to offset a portion of its operating expenses. As a result, grant proceeds and liquid investment income contributed to the Company's profits until 2003. For the year ended December 31, 2004, the Company posted a net loss of $0.2 million. For the year ended December 31, 2005, the Company recorded net earnings of $6.8 million, boosting net value per common share to $10.37, based on the number of common shares outstanding at year-end.

In the coming years, prudent liquid portfolio management and judicious selection of promising high-quality projects will continue to be the key to generating attractive long-term returns for shareholders. However, the adoption of the fair value method is expected to cause additional fluctuations in the Company's results and net value per share since the liquid portfolio and the fixed-income portion of the investment portfolio are directly impacted by market interest rate changes.

RETURNS BY ASSET CLASS ON A DISBURSEMENT BASIS	2005 %	2004 %	2003 %
Fixed-income securities	5.1	7.0	5.9
Equity securities	7.1	(15.5)	(10.7)
Total portfolio	5.5	4.0	4.5
Operating expenses and income taxes, net of membership dues and grants	(4.3)	(4.0)	(2.8)
Company's return	1.2	-	1.7

CHANGES IN NET VALUE PER COMMON SHARE	2005 $	2004 $	2003 $
Net value, beginning of the year	10.25	10.25	10.12
Interest and negotiation fees	0.41	0.44	0.46
Realized gains	0.18	0.18	0.10
Changes in unrealized appreciations (depreciations)	(0.03)	(0.20)	(0.09)
Operating expenses, net of membership dues and grants	(0.38)	(0.39)	(0.19)
Income taxes and capital tax	(0.06)	(0.03)	(0.10)
Increase (decrease) attributable to operations	0.12	-	0.18
Difference attributable to share issues and redemptions and to shareholder's non-controlling interest	0.00	-	(0.05)
Net value, year-end	10.37	10.25	10.25

5. ACCOUNTING POLICIES

5.1. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period.

The main estimates relate to determining the fair value of investments impacting the Québec economy. Actual results could differ from those estimates.

The fair value of the investment portfolio impacting the Québec economy is determined on a semi-annual basis in accordance with methods recommended by the manager's Valuation Committee and approved by the Company's Board of Directors. The manager's management prepares a detailed valuation report and a team of employees specialized in business valuations assists in determining the fair value. In preparing analyses, management draws on the services of an outside business valuation expert, as needed. The report is then submitted to the manager's Portfolio Valuation Advisory Committee. This committee consists of one of the manager's directors, one of the Company's directors and one outside member; a business valuation expert also attends the committee's meetings. The committee receives and discusses the report, ensures reasonableness based on the advice of outside experts, as necessary, and makes a final recommendation to the Company's Board of Directors.

In accordance with the manager's portfolio valuation methodology, the valuation technique is initially determined in the following order of priority:

- Based on the market value for public companies.
- Based on a recent transaction within the past 12 months, if applicable.
- Based on an alternative valuation method in other cases.

The alternative valuation method is based on the nature of the company's operations, in addition to its development stage, financial results and the qualitative progress of its operations.

5.2. NEW ACCOUNTING STANDARDS

In January 2004, the Canadian Institute of Chartered Accountants Accounting Standards Board issued Accounting Guideline AcG-18, which requires investment companies to carry investments at fair value. The Company has decided to apply this new standard prospectively starting January 1, 2005. Consequently, bonds previously carried at unamortized cost are carried at their fair value. This change in accounting policy increases both the investment and unrealized appreciation (depreciation) balances by $1.5 million respectively, decreases future income taxes by $0.3 million, and increases net asset value per common share by $0.03 to $10.28 at January 1, 2005.

Moreover, funds committed but not disbursed are not presented in the balance sheets. Funds committed but not disbursed were previously presented with investments impacting the Québec economy and in deduction of investments. This change in accounting policy has been applied retroactively with restatement and resulted in a decrease in investments impacting the Québec economy and an increase in investments of $60.6 million as at December 31, 2004. This new accounting standard did not have any effect on net assets, net loss and cash flows of the Company for the year ended December 31, 2004.

6. 2005 REVIEW AND 2006 OUTLOOK

The Company entered the venture capital industry at a time when business valuations were subject to downward pressure and the government's role in the industry was uncertain.

Moreover, since interest rates are at an all-time low, it may be difficult to achieve the liquid portfolio's current return objective, i.e., to generate sufficient liquidity to cover operating expenses in the coming years. However, liquid investments generated significant non-recurring gains.

Although optimizing its operating return is among the Company's goals, maintaining the share value above the initial issue price of $10 per share and contributing to Québec's economic development continue to be its top priorities.

6.1. 2005 CAPITAL MARKET REVIEW

The highlights of 2005 included soaring raw material prices, a pronounced flattening of the interest rate curve, the first (albeit minimal) revaluation of the Chinese yuan in many years and a record-breaking U.S. current account deficit.

After temporary halting the monetary tightening cycle in late 2004 (when the overnight rate stood at 2.50%), the Bank of Canada resumed its policy in September 2005, gradually raising rates to 3.25% at year-end. Despite these rate hikes and despite the central bank's clear intention to maintain its monetary tightening policy, Canadian 10-year interest rates actually fell by 0.30 percentage points to finish the year at 3.99%.

The U.S. Federal Reserve pursued its policy of moderate monetary normalization by raising federal fund rates by 200 basis points (bp) to 4.25% at year-end. The official rate hikes had a greatly reduced impact on 10-year bond yields, which rose only 20 bp to 4.39%, with the rate curve virtually flat in the 2-10 year segment.

With the S&P/TSX Index up 21.91% (nearly 24% if dividends are included), 2005 was another banner year for the Canadian stock market. Led by a 60% jump in the energy sector, the S&P/TSX was significantly modified at the end of the year following the inclusion of income trusts. In the U.S., the S&P 500 Index ended up posting a 3.00% increase (almost 5.00% if dividends are included) in 2005. Although it showed no clear 12-month trend, the market did regain its footing in the latter part of 2005 in anticipation of slower monetary tightening in the U.S.

Building on its performance of recent years, the Canadian dollar appreciated during 2005. It gained 35.0% against the U.S. dollar and 32.5% against the C6 Index, which tracks the currencies of Canada's main trading partners, over the past three years. The Canadian dollar's strength has become a key issue for a number of Canadian companies.

6.2. ECONOMIC AND FINANCIAL OUTLOOK FOR 2006

Once again this year, the key driver of Canadian economic growth is the performance of our trading partners, particularly the U.S.

In this regard, one central theme in 2006 will be the cumulative economic growth impact of the Federal Reserve's overnight rate increases (325 bp since June 2004). Monetary tightening is expected to continue, with the federal funds rate likely to peak at around 5.00% in the first half of the year. Since it usually takes 12-18 months for the full impact of rate increases to be reflected in real economic growth, developments in 2006 should enable us to gauge the U.S. economy's ability to adjust to more "neutral" rates.

An important international issue in 2006 will be the follow-up to the yuan's revaluation last year. In continental Europe, all eyes will be on the European Central Bank (ECB), which hiked key interest rates by 25 bp in December 2005 after two years of stability in order to offset potential inflationary risks. Market participants will be attempting to gauge how much latitude the ECB has to continue raising rates, particularly since European economic growth is far from excessive. After paving the way with the first rate increase in 2006, the U.K. Central Bank will have to weigh its next moves carefully, especially with the real estate market showing apparent signs of cooling off and consumption slowing. Inflation, however, remains near the upper end of the comfort zone.

Despite these uncertainties, the U.S. and Canadian economies should expand by 3.4% and 3.0% respectively in 2006. Given weak inflation and with economic growth slightly underperforming its long-term potential, the central banks are likely to restrict their interest rate increases, thereby limiting yield increases in the long-term bond market. However, numerous risk factors could push long-term rates higher, including the potential inflationary impact of oil price fluctuations and the potential effect of a massive drop-off in U.S. bond purchases by foreign investors.

6.3. VENTURE CAPITAL OVERVIEW

2005 was a transitional year for the venture capital industry in Québec, with investments up 12% compared with 2004. ($710 million in 2005, compared with $635 million in 2004). Reinvestments accounted for two-thirds of the activity in fiscal 2005. The life sciences sector recovered, posting a 12% increase in investment volume in 2005, compared with a 28% decrease in 2004. All other sectors recorded slightly higher investment volumes.

The Company actively sought to increase its market share during the ongoing transition. For the second consecutive year, volumes were up. The Company was also involved in five of the ten largest investment rounds in Québec in 2005.

The realignment of the Québec venture capital industry began in 2004 and made slow progress in 2005, when most investors reoriented their investment targets and portfolio structures. In conjunction with the arrival of foreign investors, the efforts of the Regional Economic Intervention Funds (FIER) and other stakeholders to create specialized funds have begun to pay off. A number of such funds were created or recapitalized in 2005, and this trend should continue in 2006.

Amid increased mergers and acquisitions activity and a surging stock market, a number of divestitures were completed, with 2006 showing even more promise.

	2005	2004
Investments in the Québec venture capital industry (in $M)[1]		
IT/communications	$289	$262
Life sciences	$196	$175
Traditional	$225	$198
Total	$710	$635
Company's market share		
IT/communications	9.9%	8.4%
Life sciences	10.1%	9.7%
Traditional	41.2%	23.7%
Total	19.9%	13.5%

(1) Source: Réseau Capital

Thanks to the expanded presence of the Company's manager across Québec and to its closer links with cooperatives and entrepreneurs, the Company had a banner year and increased its investments impacting the Québec economy, raising its market share from 13.5% in 2004 to 19.9% in 2005. Traditional sectors accounted for the largest increase. The $30 million investment in Desjardins – Innovatech S.E.C. is included in the traditional sector. Without that investment, Company's market share would have been 32.2% in that sector.

7. RISK MANAGEMENT

7.1. RISK GOVERNANCE

In keeping with the portfolio asset management approach, risks are managed globally, taking into account all of the Company's contractual commitments. The monitoring and control of different risks is overseen by various committees. Some risk governance responsibilities are assumed by the Company's manager.

EXECUTIVE COMMITTEE

The Executive Committee is authorized to exercise all of the Board's powers with respect to the management of the Company's business, except those statutory powers that must be exercised by the Board. The Committee oversees annual reviews of the effectiveness of the Board and its committees, in addition to the directors' performance reviews. The Committee is also mandated to interpret and apply the purchase-by-agreement policy. Furthermore, it reviews quarterly reports from the Company's manager concerning high-risk files and the corrective measures taken.

INVESTMENT COMMITTEE

The Investment Committee (liquid portfolio) approves the investment strategies proposed by the Company's manager, together with the terms and conditions governing the liquid investment portfolio within the framework of the investment policy authorized by the Board of Directors. The Committee ensures that the necessary oversight measures are taken to ensure the proper execution of the manager's mandate. It also reviews results and recommends corrective action, as applicable, to the Board of Directors.

AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the financial reporting process, including reviewing the quarterly, semi-annual and annual statements. It also reviews the financial information disclosures, internal control systems, risk management policies, internal and external audit processes, procedural implementations, regulatory compliance matters and any other responsibilities assigned by the Board of Directors.

In addition, the Committee oversees the independence of the external auditors and the Desjardins Group's internal auditor, who serves as the Company's internal auditor.

ETHICS AND PROFESSIONAL CONDUCT COMMITTEE

The Ethics and Professional Conduct Committee considers all matters pertaining to the Company's Code of Ethics and Professional Conduct and ensures compliance with the contract awarding/review rules therein. The Committee is responsible for reviewing potential conflicts and making appropriate recommendations to the Board of Directors. It also reviews candidates' eligibility for the two directorships to be voted on by the Meeting of Shareholders and determines the independence of each director on an annual basis.

MANAGER'S INVESTMENT COMMITTEES

The Company's manager has set up investment committees to evaluate and approve purchases/sales of interests in companies within the framework of the policies and strategic plan defined by the Company's Board of Directors.

7.2. POTENTIAL RISKS

MARKET RISKS

Market risks pertain to the Company'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 the Company's assets. The market risks directly impacting the Company are as follows:

INTEREST RATE RISK

Interest rate fluctuations have a significant impact on the market value of bonds held in the portfolio. This impact was more apparent in 2005 as a result of the adoption of the fair value accounting method for investments. A 1% increase in interest rates would thus lead to a 1.8% drop in the Company's share price as at December 31, 2006.

CURRENCY RISK

Exchange rate fluctuations impact a number of partner companies. Although some exporting companies may be hurt by a stronger Canadian dollar, the net impact of currency appreciation is not always negative. Indeed, it may be positive for companies that import a significant proportion of their inputs or that use the opportunity to purchase equipment with a view to improving long-term productivity.

STOCK MARKET RISK

Stock market trends have a twofold impact on the Company. 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.

In accordance with the Company's global asset management approach, the overall impact of these interrelated risks is taken into account when determining the overall asset allocation.

CREDIT AND COUNTERPARTY RISKS

As part of its venture capital mission, the Company is necessarily exposed to credit risks associated with potential financial losses by partner companies. By diversifying its investments by sector, company development stage and financial instrument type and by limiting the potential risk of each partner company, the Company has successfully limited portfolio volatility due to negative events.

These risks are associated with the liquid portfolio and are managed by limiting the risks associated with individual issuers and by ensuring that all portfolio securities have a BBB credit rating or higher. Counterparty risks arising from cash and repurchase agreement transactions are limited to the immediate short term.

IMPACT OF CREDIT AND COUNTERPARTY RISKS ON THE COMPANY

(IN % OF NET ASSETS AS AT DECEMBER 31, 2005)

Weighting of the top five ownership interests	12.8%
Weighting of the top five issuers/counterparties (liquid portfolio)*	65.6%

* Governmental issuers accounted for 87.2% of this weighting.

LIQUIDITY RISKS

The Company must maintain sufficient liquid assets to fund share redemptions. If it failed to do so, the Company would be dependent on the markets and could be forced to carry out transactions under unfavourable conditions. With liquid investments representing 40% of assets under management and as a result of the management approach, which ensures that the average maturity of assets matches the average maturity of expected outflows, the Company can confirm that liquidity risks are adequately covered.

7.3. REGULATORY MATTERS

The Company is subject to provincial and federal laws, rules, standards, regulations and policies, in addition to internal rules, by-laws and policies that provide a framework for its operations. Some risk is associated with the Company's ability to fulfill its obligations and to adapt to regulatory changes or moves to tighten existing policies.

Additional Company information, including the annual information form, is available on the SEDAR website (www.sedar.com).

February 8, 2006