2006 FINANCIAL REVIEW

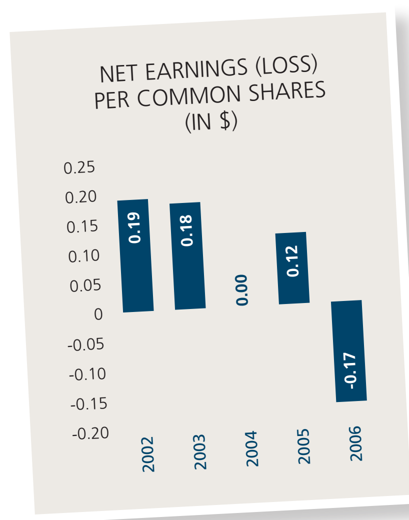
This Financial Review seeks to provide an in-depth understanding of the operations of Capital régional et coopératif Desjardins (the "Company"). It should be read in conjunction with the audited consolidated annual financial statements and the accompanying notes. This disclosure document contains management's 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.

The Company ended fiscal 2006 with a net loss of $10.2 million and a negative return of 1.6%, thereby reducing net assets per common share from $10.37 to $10.21 based on the number of common shares outstanding at year-end. Subscriptions totalled $79.5 million and net assets stood at $654.6 million. Shareholders totalled 118,250 as at December 31, 2006, up 2.4% from 2005. The cost of investments impacting the Québec economy made or committed exceeded $417 million, of which nearly $312 million were disbursed.

The Company's return resulted primarily from the contribution of the following two asset categories: fixed-income securities and equities. Fixed-income securities consist of the liquid portfolio's bonds and liquidities, as well as the investment portfolio's debentures and advances. The return on this asset class held steady in 2006 compared with 2005, at 5.1%.

Our equity asset class consisted mainly of our investment portfolio equities. Equities generated a negative return of 7.4% in 2006, mainly due to losses on the sale of investments. In 2005, a successful IPO by one of the companies in the portfolio contributed to a positive return of 7.1%.



RETURNS BY ASSET CLASS ON A DISBURSEMENT BASIS

	2006	2005
	%	%
Fixed-income securities	5.1	5.1
Equity securities	(7.4)	7.1
Total portfolio	2.1	5.5
Expenses and income taxes, net of membership dues and non-controlling interest	(3.7)	(4.3)
Company's return	(1.6)	1.2

CHANGES IN NET VALUE PER COMMON SHARE

	2006	2005
	$	$
Net value, beginning of the year	10.37	10.25
Interest, dividends and negotiation fees	0.49	0.41
Gains (losses) realized	(0.21)	0.18
Changes in unrealized appreciations (depreciations)	(0.06)	(0.03)
Expenses, net of membership dues	(0.40)	(0.38)
Income taxes and capital tax	0.00	(0.06)
Increase (decrease) attributable to operations	(0.17)	0.12
Difference attributable to share issues and redemptions and to non-controlling shareholder's interest	0.01	0.00
Net value, end of year	10.21	10.37

As at December 31, 2006, the Company complied with all the requirements of its incorporating act. 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 significantly contributing to Québec's economic development continue to be its top priorities.

Prudent management of the liquid portfolio, coupled with ongoing efforts to enhance partner business valuations within the portfolio of investments impacting the Québec economy are the key items that will enable the Company to offer shareholders attractive long-term returns.

ECONOMIC BACKGROUND

It was finally in 2006 that the Bank of Canada and U.S. Federal Reserve took a break in their monetary tightening cycle. Initiated in the fall and early summer 2004, respectively, these tightening cycles saw the Bank of Canada raise its key rate by 225 basis points (b.p.), from 2.00% to 4.25%, whereas the U.S. Federal Reserve opted for 21 consecutive hikes, raising its key rate from 1.00% to 5.25%. Ten-year interest rates rose a mere 20 b.p. at home in 2006 to reach 4.09% by year-end, whereas they increased 30 b.p. south of the border to reach 4.70% by year-end 2006. However, during the year, these rates experienced several sudden changes, resulting in greater volatility in the Company's results.

In Canada, real GDP grew substantially, reaching nearly 2.7%. However, the Western Canadian economies, still powered by high-flying oil prices, recorded sharp growth, whereas Ontario and Québec were more affected by the impact of the Canadian dollar's appreciation on their major manufacturing sectors. The employment market remained strong with the creation of nearly 345,000 new jobs in Canada. Inflation remained in check, as vigorous overall domestic demand was boosted by real estate, which continued its significant growth of the past few years.

After a great start in the first quarter of 2006, with annualized real GDP growth of 5.6%, the U.S. economy cooled off slightly to log real GDP growth of 3.3% for the year as a whole, nearly matching its performance potential. The job market capitalized on this growth with the creation of 1.8 million new jobs. In the U.S., however, inflation remained slightly above the Fed's target long-term level.

After a strong appreciation of nearly 5% against its U.S. counterpart in the spring, the Canadian dollar fell late in the year to end 2006 at the same level it started at. The fact that more signs of an economic slowdown were observed in Canada than in the U.S. was also to blame. From a stock market perspective, 2006 was another banner year with the S&P/TSX adding 17.3% and the S&P 500, 15.8%.

The delayed effect of the Canadian dollar's sharp appreciation of the past few years took its toll on the Company's investment portfolio in 2006. As a result, several businesses related to the export sector had to adapt quickly to this new reality, and some of them were hit hard. Another key factor were the difficulties experienced by various sectors related to the forest and agri-food industries. Due to its partnering with several businesses in these sectors, the Company was adversely affected by the prevailing economic conditions in these industries.

OUTLOOK

For 2007, we are focusing on the potentially significant impact of the following two items on growth in the Canadian and U.S. economies:

- The ability of Canadian companies to adjust to the loonie's appreciation against the greenback.
- The combined impact of past interest rate hikes and a cooling off in U.S. real estate on American consumer spending.

From its real-term peak of $74 billion at the start of 2002, the Canadian trade balance deteriorated sharply to reach a deficit of $23 billion in the third quarter of 2006. The net export market—historically a boon for Canadian real GDP—was hard hit by the loonie's ascent. Coupled with intense competition in foreign markets, the latest data do not point to any rebound in net exports in the coming months. As in the past several years, it will be up to Canadian consumers to drive GDP growth.

As for past rate hikes and the slowing U.S. real estate market, we will need to wait and see how they will impact U.S. consumer spending. In light of negative savings rates since 2005, the sluggish rise in real salaries, households' upward adjustment in their mortgage debt servicing and the reduced ability to use home equity to finance common consumer purchases, it begs the question as to whether U.S. consumers will still have the means to keep spending. The answer will determine the scope of the economic slowdown expected in Canada and the U.S. in 2007.

With the cooling off anticipated in the Canadian and U.S. economies in the first half of 2007 and an inflation rate that is expected to stay within the central banks' target ranges, monetary authorities might have the breathing room they need to lower key rates once or twice by fall 2007.

The future seems brighter for the Company's business partners who manage to withstand the loonie's sharp rise and difficulties in the manufacturing sector. They will be able to not only enhance their market share but capitalize on lower equipment costs to increase productivity via equipment acquisitions. They will also have the opportunity to take part in the consolidation of certain industry segments.

VENTURE CAPITAL MARKET

After an 11% decline in investments in 2005, the Québec venture capital industry saw greater activity in 2006. In Québec, investments were up 9% for a total of $603 million. For the same period, activities in all of Canada and the U.S. held relatively steady. The life sciences sector was the most active, snapping up 44% of invested capital. Investors seemed to have regained confidence in software companies, as information technology held its ground compared with 2005, with investments totalling $217 million in 2006.

Moreover, the participation of U.S. and foreign funds continued to be significant, as these players usually take part in the largest transactions. Their contributions pushed up the average transaction, which amounted to $3.4 million per investment in 2006, compared with $2.1 million in 2005.

As regards the Regional Economic Intervention Fund (FIER), the gradual implementation initiative continued in 2006. The FIER Partenaires' investments in specialized funds are starting to pay off. Although companies at more advanced stages of development attract a greater share of investments, investor interest in start-ups appears to be continually growing. In fact, investment activity in start-ups nearly doubled in 2006, surging from $55 million in 2005 to $108 million in 2006.

In Québec, with its plethora of SMBs, financing and investments for business transfers and continuity are becoming increasingly commonplace. Indeed, all the major players offer programs and products tailored to this niche.

Québec has performed impressively, attracting over 67% of Canadian venture capital. These funds, along with higher average investments, stand Québec businesses in good stead in 2007. In terms of geographic segmentation, Montréal once again attracted the lion's share of Québec investments, rising to 75% from 64% in 2005.

ACCOUNTING POLICIES

CONSOLIDATION

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% limited partnership interest, and via the contribution of an investment portfolio by the other partner, Société Innovatech Régions ressources. In 2006, the Company injected additional funds totalling $20 million, bringing its limited partnership interest to 66.1%. Desjardins – Innovatech S.E.C. is consolidated in the Company's financial statements. The financial information in this Financial Review is presented on a consolidated basis.

USE OF ESTIMATES

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

The principal estimates are related to the determination of the fair value of investments impacting the Québec economy. Actual results could differ from those estimates. Those estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings (loss) in the period in which they are known.

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 valuation 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 a director of the Company's manager, one of the Company's directors and an external member. An external business valuation expert also attends Committee 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 market value for public companies for which an active market exists.
- 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.

NEW ACCOUNTING STANDARDS

In accordance with new accounting standards, the Company adopted the fair value method of accounting for investments, effective January 1, 2005. This 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 as at January 1, 2005. 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.

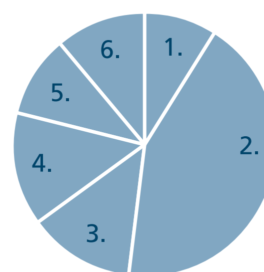
In January 2005, the CICA issued new accounting standards: Section 1530, *Comprehensive Income*, and Section 3855, *Financial Instruments – Recognition and Measurement*. These new CICA Handbook sections are effective for the interim and annual periods beginning after October 1, 2006 and provide comprehensive requirements for the recognition and measurement of financial instruments. In addition, these sections introduce a new equity component, referring to comprehensive income. The Company is an investment company and the adoption of these sections will be limited to certain items. We do not expect these new recommendations to have a material impact on the consolidated results of the Company and its financial position.

INVESTMENT PORTFOLIO

During fiscal 2006, the Company made $86.0 million in disbursements, while proceeds from sales totalled $20.0 million. As a result, the fair value of the Company's investments impacting the Québec economy totalled $293.4 million as at December 31, 2006 on a consolidated basis.

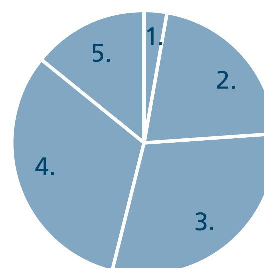
As part of its business development activities, the Company's manager focuses from time to time on different economic sectors or companies at different development stages to ensure investment portfolio balance. In order to generate both short and long-term returns for the Company's shareholders, the range of financial instruments used may also vary.

Portfolio diversification is determined by adding the funds committed but not disbursed to investments at fair value. As at December 31, 2006, the investment portfolio was broken down by sector and by development stage as follows:



TOTAL COMMITMENTS AT FAIR VALUE PER SECTOR AS AT DECEMBER 31, 2006

1. 9% ... Cooperatives
2. 43% ... Industrial
3. 13% ... Health and biotechnologies
4. 14% ... Investment Funds
5. 10% ... Information technologies
6. 11% ... Telecommunications



TOTAL COMMITMENTS AT FAIR VALUE BY DEVELOPMENT STAGE AS AT DECEMBER 31, 2006

1. 3% ... Pre-start-up
2. 21% ... Start-up
3. 30% ... Growth
4. 32% ... Maturity
5. 14% ... Investment Funds

Investment activities should also be measured taking into account the change in funds committed but not disbursed. During fiscal 2006, new commitments totalled $126.6 million, of which $86.0 million was disbursed, compared with $116.5 million and $112.1 million respectively in 2005.

Investing activities reached a recurring annual volume that will enable the Company to continue meeting statutory investment requirements despite the fact that disposals of investments will be for increasingly higher amounts due to the weighting that debentures have assumed in this portfolio.

As at December 31, 2006, total commitments at cost amounted to $417.5 million in 209 companies, of which $311.9 million was disbursed to 186 companies within the portfolio. Commitments by region were as follows:

COMMITMENTS BY REGION	Cost $M	Cost %	Number businesses/ funds
Abitibi-Témiscamingue*	3.4	0.8	8
Bas-Saint-Laurent*	20.8	5.0	19
Capitale-Nationale	36.8	8.8	20
Central Québec	2.4	0.6	2
Chaudière-Appalaches	7.6	1.8	13
Côte-Nord*	3.4	0.8	1
Eastern Townships	53.1	12.7	17
Gaspésie-Îles-de-la-Madeleine*	6.2	1.5	9
Lanaudière	3.1	0.7	4
Laurentians	3.1	0.7	4
Laval	10.3	2.5	6
Mauricie*	11.9	2.9	8
Montérégie	27.8	6.7	14
Montréal	138.7	33.2	37
Outaouais	3.9	0.9	6
Saguenay-Lac-Saint-Jean*	29.5	7.1	34
Investment Funds	55.2	13.2	5
Outside Québec	0.3	0.1	2
Total	417.5	100.0	209

* Resource regions

REVENUE GENERATED BY THE INVESTMENTS

(in thousands of $)	2006	2005
Current revenue	13,492	7,474
Realized or unrealized appreciation (depreciation)	(16,915)	5,366
	(3,423)	12,840

Current revenue consists of interest, dividends and negotiating fees related to venture capital investments. The increase in current revenue was mainly attributable to a higher average debenture balance, which doubled interest revenue in 2006 compared with 2005.

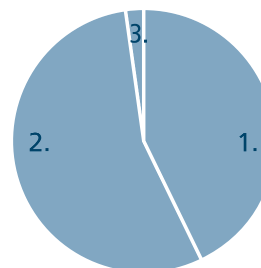
The Company accounts for its investments impacting the Québec economy at fair value. In fiscal 2006, two comprehensive portfolio reviews were carried out, with one covering the six-month period ended June 30 and the other covering the six-month period ended December 31, 2006. As a result of these reviews, 82 investments were revalued. Considering the $13.7 million impact of the loss upon disposal of investments impacting the Québec economy, the Company recorded in its results for the year a $3.2 million increase in unrealized depreciation, for cumulative portfolio unrealized depreciation of $18.5 million, as reported in the balance sheet as at December 31, 2006.

The fair-value valuation of the investment portfolio had an unfavourable impact on the Company's results as the Company finalizes the building phase of its investment portfolio. Given the nature of the Company's activities, i.e. venture capital investments in small and medium-sized businesses, difficulties are more likely to arise during the investment portfolio's initial building phase whereas the success is more likely to occur during the realization phase toward the last third of the fund's estimated lifecycle, which normally extends 10-15 years. Prospects of a positive portfolio return should therefore be anticipated when the average age of investments reaches five to eight years. In 2005, the Company capitalized on the successful IPO of Technologies Miranda, resulting in investing activities generating gains totalling $5.4 million. Such successful results are not common for a portfolio as young as the Company's. As at December 31, 2006, the average age of the Company's portfolio was less than three years.

In 2007, the Company manager's main goal in relation to the Company's investments will be to enhance the valuations of its current portfolio partner companies to drive future portfolio value appreciation.

LIQUID PORTFOLIO

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



TOTAL ASSETS AS AT DECEMBER 31, 2006

1. 43.01% ... Investments
2. 54.81% ... Liquid investments
3. 2.18% ... Other

As at December 31, 2006, the Company's liquid portfolio (including cash and cash equivalents) totalled $373.9 million compared with $362.9 million as at December 31, 2005. These funds were invested mainly in highly liquid bond market securities presenting low credit risk. As at December 31, 2006, almost 70% of the portfolio securities were government-guaranteed. The Company anticipates that the portion of the liquid portfolio in relation to total assets, which currently stands at nearly 55%, will decrease in 2007 and gradually stabilize around 40% to promote investments impacting the Québec economy in line with its core mission.

In addition to fulfilling its statutory mandate of fostering regional and cooperative development, as well as promoting Québec's overall economic development, the Company seeks to maximize total returns for its shareholders while reducing the risks of capital losses. Using an overall portfolio management approach, the Company manages its portfolio of investments impacting the Québec economy together with its liquid portfolio. As a result, the Company's overall investment portfolio is balanced, allowing for sustained returns to shareholders 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 cash 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 impacting the Québec economy in eligible entities. The main considerations are as follows:

- The Company's shareholders must hold their shares for at least seven years.
- The investments impacting the Québec economy 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, 2006, the Company had no market positions. In 2007, other asset classes will be contemplated to enhance the performance prospects of the liquid portfolio while maintaining risk at a reasonable level.

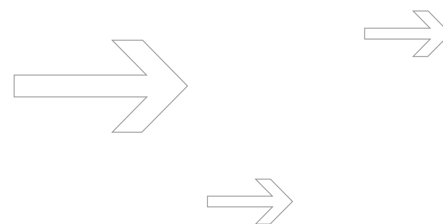
As regards the management of its liquidities and securities investments, the Company deals mainly with Caisse centrale Desjardins, Desjardins Securities and Desjardins Trust.

REVENUE GENERATED BY THE LIQUID PORTFOLIO

(in thousands of $)	2006	2005
Current revenue	16,692	15,295
Realized or unrealized appreciation (depreciation)	654	2,720
	17,346	18,015

Current revenue consists of interest and dividends on liquid portfolio. Interest income (primarily from bonds) is recognized at the bond rate in effect at the acquisition date. Gains on disposal are recorded at the date of sale and correspond to the difference between the proceeds on 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.

This liquid portfolio provides the Company with a major source of operating revenue even though interest rates have been low since the Company's inception. The portfolio's contribution totalled $17.3 million in 2006, compared with $18.0 million in 2005. The increase in current revenue was mainly due to a higher average effective rate for bonds, which rose from 4.13% in 2005 to 4.30% as at December 31, 2006. A sudden interest rate surge in early 2006 flattened out later in the year with interest rates as at December 31, 2006 only 6 b.p. lower than their December 31, 2005 level. As a result, the liquid portfolio did not benefit from as much value appreciation as in 2005.



CAPITAL RAISING

The Company sells its shares exclusively through the Desjardins caisse network. As at December 31, 2006, this distribution network consisted of 516 Desjardins caisses and 861 service centres, for a total of 1,377 sales outlets.

The Company is authorized to increase its share capital by $150 million per capitalization period up to a maximum of $1,325 million by February 28, 2011, i.e. the end date of the last capitalization period. However, over the course of the last three capitalization periods, the Company may, in order to reach its authorized share capital, issue shares for an amount greater than $150 million since it is bound to repurchase shares issued at least seven years earlier from those shareholders who make such a request. Each twelve-month capitalization period begins on March 1. 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.

Subscription of shares of the Company entitles the investor to receive a non-refundable tax credit, that applies only to Québec tax, for an amount equal to 35% (50% before March 24, 2006) of all amounts subscribed annually, up to a maximum tax credit of $875 ($1,250 before March 24, 2006). However, an investor who has already requested the repurchase of shares of the Company will no longer be able to benefit from this tax credit upon subsequent share purchases.

A total of $79.5 million of capital was raised during fiscal 2006 compared with $100.6 million for fiscal 2005. This decline was due to several factors, particularly to the postponement of the issue start date to May 30, 2006, as the summer period is poorly suited to shareholder financial and tax planning, as well as to the reduction in the tax credit announced on March 24, 2006. Nevertheless, the number of shareholders continued to grow, reaching 118,250 as at December 31, 2006 compared with 115,456 as at December 31, 2005. Share capital stood at $650.2 million, reflecting a total of $1.4 million in common share repurchases. As at December 31, 2006, the Company had 64,139,488 common shares outstanding.

Revenue from membership dues, which are payable by all new shareholders upon opening or closing an account, is directly related to capital raising initiatives and to the number of Company shareholders and held steady in 2006 at $0.2 million.

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 value appreciation.

HISTORY OF SHARE CAPITAL ISSUES

Year issued	Issue price $	Capital issued $M	Year repurchases begin
2001	10.00	79.1	2008
2002	10.00	129.3	2009
2003	10.12 and 10.24	164.5	2010
2004	10.25	101.7	2011
2005	10.25	100.6	2012
2006	10.37 and 10.21	79.5	2013

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2006, the Company invested $86.0 million ($112.1 million in 2005) in Québec entities, primarily using cash flows from capital raising initiatives and from the disposal of certain investments. As at December 31, 2006, cash and cash equivalents amounted to $40.6 million compared with $10.6 million as at December 31, 2005 due to the size of the commitments related to the investment portfolio for which minimum payments during fiscal 2007 are estimated at $66.6 million. The Company is of the opinion that its operating and financing activities would be sufficient to cover any shortfall.

Given the investment management approach of matching the average maturity of the company's total assets with the average maturity of its expected cash outflows, the Company does not anticipate any shortfall in liquidities in the short or medium term and expects to be able to repurchase shares issued at least seven years earlier from those shareholders who make such a request as of November 2008.

EXPENSES

EXPENSES

(in thousands of $)	2006	2005
Management fees	20,709	17,637
Other operating expenses	1,437	1,044
Trustee fees	1,713	1,690
Other shareholder service expenses	265	194
Capital tax	286	536
Amortization of software	735	735
	25,145	21,836

OPERATING EXPENSES

Management fees in fiscal 2006 amounted to $20.7 million, or 93.5% of total operating expenses of $22.1 million, compared with $17.6 million, or 94.4% of total operating expenses in 2005.

The billing basis is comparable from one period to another since no changes were made to the management agreement. Management fees are equivalent to 3% of the Company's annual non-consolidated average assets' net value. 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 percentage will be reduced to 2.5% as of the fiscal year following that in which the Company's net asset value reaches $750 million. In light of the authorized annual capital raising, i.e. $150 million, 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 also the Company's manager. Desjardins – Innovatech S.E.C. has undertaken to make yearly management fee payments corresponding to 3% of the annual average assets' net value, less the amount attributable to the provision for surety. An additional amount equal to 20% of the return attributable to the partnership in excess of the average annual base return of 7.5% is payable when the partnership is wound up.

SHAREHOLDER SERVICES

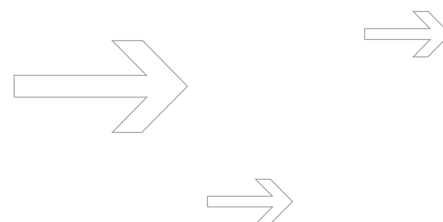
The Company has appointed Desjardins Trust Inc. as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. Since the Company began operations, Desjardins Trust has represented the largest component of the Company's shareholder services expenses. For fiscal 2006, Desjardins Trust's services amounted to $1.7 million, or 86.6% of the Company's shareholder services expenses; this level is in line with that recorded in 2005. 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. In addition to 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 AND INCOME TAXES

The tax liability was minimized by selecting securities eligible for a deduction for the purposes of the Québec capital tax while ensuring investment diversification and security. As at December 31, 2005 and 2006, the liquid portfolio consisted entirely of eligible investments for Québec capital tax purposes. However, certain investments impacting the Québec economy were not considered as eligible investments.

Income taxes reduced the loss before income taxes by $0.6 million in 2006 compared with a tax expense of $2.7 million in 2005. 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 since capital gains and business income are taxed at different rates. In addition, the federal large corporations tax was abolished in 2006. An income tax expense of $0.5 million had been recorded for such purposes in 2005.



STATUTORY REQUIREMENTS

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 eligible cooperatives. If these criteria were not met, the Company would be subject to penalties.

During the year, the current legislation was modified to integrate previously announced amendments as well as to make the additional clarifications and adjustments unveiled in the 2006-2007 budget. The effect of these amendments, as a whole, was to broaden the scope of eligible investments and, in certain cases, make it possible to include in the statutory calculations a greater portion of the funds committed but not disbursed.

As at December 31, 2006, the Company had exceeded the statutory target by 12% for its aggregate eligible investments and had also exceeded expectations by 30% for investments in cooperatives and in the resource regions.

The Company expects to continue meeting its investment objectives, in particular by maintaining a presence in all Québec regions via its manager's 24 offices.

In the consolidated balance sheet, the non-disbursed portion of eligible investments is combined as other non-eligible investments under "Investments impacting the Québec economy," whereas the portion of funds committed but not disbursed is disclosed under note 5c). Finally, a "non-consolidated statement of cost of investments impacting the Québec economy" disclosing the investments granted to each of the partner companies, is also included in this annual report.

RISK MANAGEMENT

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 recommends investment strategies and risk management limits for the liquid portfolio. The Committee also oversees compliance with the investment policy approved 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 seeks assurances from the Company's manager that the Company's dedicated resources are familiar with the Code's requirements and that the mechanisms are in place to detect and resolve any issues regarding professional conduct. 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.

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. As a result, a 1.0% increase in interest rates would have resulted in a 1.7% decrease in the Company's share price as at December 31, 2007. In addition, a 1.0% decrease in interest rates would have had the opposite effect, resulting in a 1.7% increase in the share price.

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

(at December 31, 2006)	% of asset class	% of net assets
Weighting of the top five ownership interests (investment portfolio)	27.6	11.9
Weighting of the top five issuers/counterparties (liquid portfolio)*	70.3	33.2

* Governmental issuers accounted for 89.5% of the liquid portfolio's five largest issuers or counterparties.

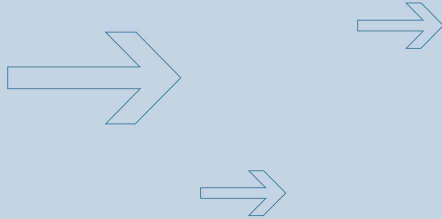
LIQUIDITY RISKS

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.

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.

VISION, MISSION AND GOALS



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.

GOALS

In keeping with its vision and mission, the Company pursues three main goals:

- Enhance the value of our associated companies to maximize shareholder returns.

- Provide support and financing to underpin the continuity of Québec businesses, particularly by making strategic investments to capitalize on the consolidation of certain markets.

- Partner with the Desjardins Business Centres to provide entrepreneurs with access to one-stop traditional and venture capital financing services.

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

February 7, 2007