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 the results CRCD achieved 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.

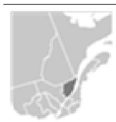
1.0 Highlights

1.1 Commitments throughout Québec

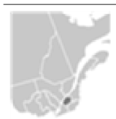
CRCD and its ecosystem[(1)] make a real contribution to the economic development of the regions. As at December 31, 2021, the funds committed per region were as follows:

ABITIBI-TÉMISCAMINGUE*
$33M → 37 companies
$0.8M → 1 cooperative

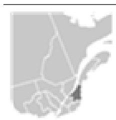
BAS-SAINT-LAURENT*
$36M → 39 companies
$0.2M → 1 cooperative



CAPITALE-NATIONALE
$147M → 70 companies
$8M → 5 cooperatives

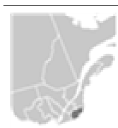


CENTRE-DU-QUÉBEC
$58M → 22 companies
$11M → 2 cooperatives



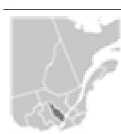
CHAUDIÈRE-APPALACHES
$220M → 55 companies
$2M → 4 cooperatives

CÔTE-NORD*
$6M → 9 companies

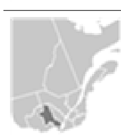


ESTRIE
$222M → 48 companies
$8M → 3 cooperatives

GASPÉSIE – ÎLES-DE-LA-MADELEINE*
$9M → 9 companies



LANAUDIÈRE
$21M → 13 companies
$5M → 2 cooperatives



LAURENTIANS
$22M → 11 companies

LAVAL
$104M → 15 companies

MAURICIE*
$21M → 11 companies
$0.6M → 1 cooperative

MONTÉRÉGIE
$285M → 71 companies
$39M → 3 cooperatives

MONTRÉAL
$417M → 105 companies
$101M → 4 cooperatives

NORD-DU-QUÉBEC*
$5M → 18 companies

OUTAOUAIS
$9M → 12 companies

SAGUENAY–LAC-SAINT-JEAN*
$80M → 66 companies
$1M → 5 cooperatives

OUTSIDE QUÉBEC (ex Europe)
$16M → 5 companies

EUROPE
$18M → 9 companies

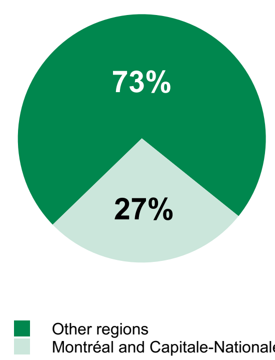
FUNDS
$69M → 16 funds

IN TOTAL

672
COMPANIES, COOPERATIVES AND FUNDS

$1,975M
BENEFITING SMEs

73%
OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND CAPITALE-NATIONALE.

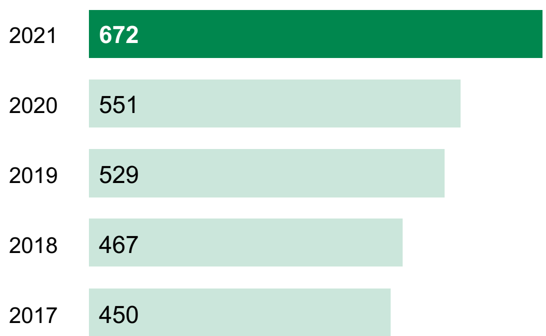


** Resource region*
(1) See the Entrepreneurial ecosystem section for a detailed description of the main features of the ecosystem.

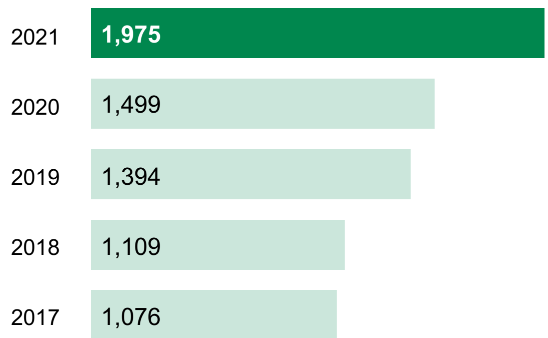
1.2 CRCD and its ecosystem support companies and cooperatives

AS AT DECEMBER 31

Total companies, cooperatives and funds



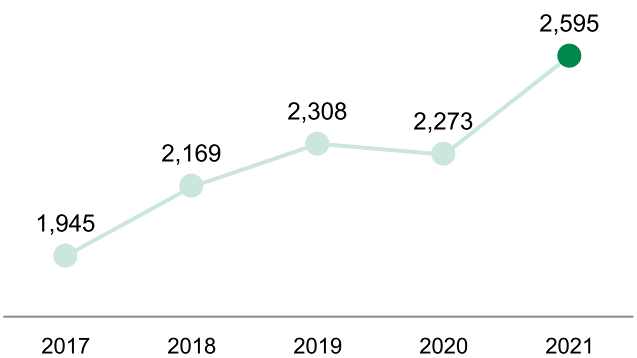
Funds committed ($M)



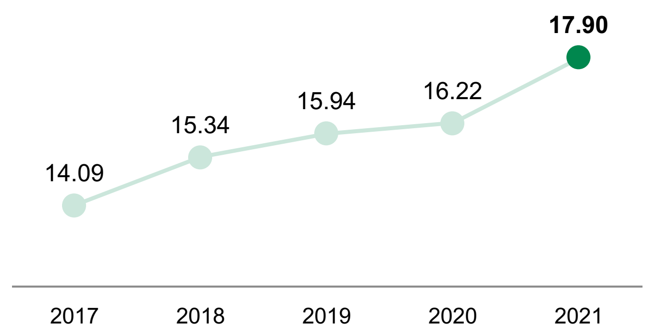
1.3 CRCD financial data

AS AT DECEMBER 31

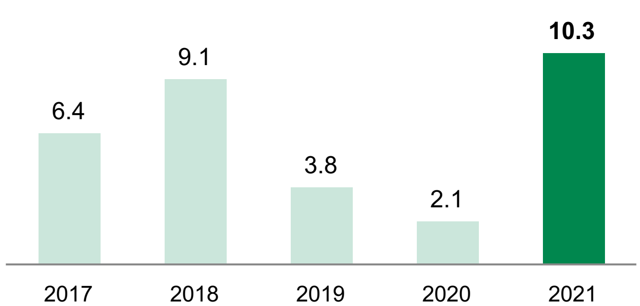
Net assets ($M)



Share price ($)



Annual fund return (%)



2.0 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.

2.1 Ratios and supplemental data

(in thousands of $, unless indicated otherwise)	**Dec. 31, 2021**	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Revenue	**67,951**	48,233	55,210	70,285	51,392
Gains on investments	**212,275**	38,471	63,703	138,632	96,541
Net earnings	**234,476**	46,429	81,302	174,894	112,757
Net assets	**2,594,703**	2,272,798	2,308,466	2,168,804	1,945,342
Common shares outstanding (number, in thousands)	**144,959**	140,110	144,849	141,391	138,080
Total operating expense ratio and common share issue expense ratio [1] (%)	**1.8**	1.8	1.6	1.6	1.9
Portfolio turnover rate:					
– Investments impacting the Québec economy (%)	**15**	13	10	17	16
– Other investments (%)	**111**	100	101	163	87
Trading expense ratio [2] (%)	**—**	—	—	—	—
Number of shareholders (number)	**113,039**	109,286	109,364	107,862	105,614
Issues of common shares – Class A "Issuance"	**140,155**	139,842	140,017	141,179	134,850
Exchanges of common shares – Class B "Exchange"	**99,855**	(92)	199,445	—	—
Common share issue expenses, net of related taxes	**—**	—	—	2,523	2,396
Redemptions of common shares	**52,726**	221,939	81,657	90,088	89,285
Investments impacting the Québec economy at cost	**1,440,623**	1,108,055	1,014,864	838,258	828,255
Fair value of investments impacting the Québec economy	**1,796,083**	1,298,331	1,249,967	1,080,069	1,033,951
Funds committed but not disbursed and guarantees and suretyships	**199,130**	238,226	237,009	192,169	183,606

(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.

2.2 Changes in net assets per common share

(in $)	**Dec. 31, 2021**	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Net assets per common share, beginning of year	**16.22**	15.94	15.34	14.09	13.26
Increase attributable to operations	**1.67**	0.34	0.58	1.28	0.84
Interest, dividends, distributions and negotiation fees	**0.48**	0.35	0.39	0.51	0.38
Operating expenses	**(0.32)**	(0.27)	(0.25)	(0.21)	(0.24)
Income taxes	**—**	(0.02)	(0.01)	(0.03)	(0.02)
Realized gains (losses)	**0.34**	0.56	0.25	0.79	0.06
Unrealized gains (losses)	**1.17**	(0.28)	0.20	0.22	0.66
Difference attributable to common share issues and redemptions	**0.01**	(0.06)	0.02	(0.03)	(0.01)
Net assets per common share, end of year	**17.90**	16.22	15.94	15.34	14.09

3.0 Recent events

CRCD and its manager, Desjardins Capital Management Inc. (Desjardins Capital or DC), continue to closely monitor developments in the health crisis caused by the COVID-19 pandemic. For more information, please see the Our vision for Québec entrepreneurship section of this MD&A.

We continue to support our entire service offering.

As reopening expands, we will continue to be there for our partner companies, supporting the growth of SMEs and cooperatives across all regions of Québec.

4.0 Overview

CRCD closed fiscal 2021 with net earnings of $234.5 million ($46.4 million in 2020), representing a return of 10.3% (2.1% in 2020), resulting in an increase in net assets per share to $17.90 based on the number of common shares outstanding as at December 31, 2021. 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 is designed to provide a balanced overall profile and limit volatility in periods of substantial market turbulence or due to unfavourable events at partner companies.

Investments impacting the Québec economy posted a return of 18.5% in 2021, compared with a return of 3.6% in 2020. This return is attributable to the very favourable performance of the majority of the portfolio's companies and cooperatives in a period of recovery.

As at December 31, 2021, the cost of Investments impacting the Québec economy totalled $1,440.6 million, of which $514.4 million was disbursed during fiscal 2021. As at December 31, 2021, commitments made but not disbursed, including guarantees and suretyships granted to companies, cooperatives or funds, amounted to $199.1 million. New commitments for the year totalled $475.3 million.

The Other investments portfolio recorded a return of 4.4%. This return is mainly attributable to equity and real estate funds, which, driven by stock market advances, performed well overall. These excellent results were mitigated by the effects of rising interest rates on the bond portfolio during the first half, despite its decrease in weight during the year. In 2020, return on the Other investments portfolio was 4.8%.

During the year, issues of Class A “Issuance” common shares totalled $140.2 million, including the balance of the 2020 issue and substantially all of the maximum authorized amount for the 2021 issue. Share redemptions totalled $52.7 million, compared with $221.9 million in 2020. Net assets amounted to $2,594.7 million and shareholders numbered 113,039 as at December 31, 2021. As at December 31, 2021, the balance of shares eligible for redemption totalled $1,026.5 million. For more information, please see the Subscriptions section of this MD&A.

4.1 Our vision for Québec entrepreneurship

Québec entrepreneurs proved their ability to overcome the difficulties that arose due to the pandemic. While several uncertainties remain, fiscal 2021 was characterized by growth, and forecasts remain positive overall.

SMEs and cooperatives still face several challenges and, CRCD, along with its manager DC, is committed to the success of its partner companies. Recruitment is one of the most significant challenges for many SMEs and cooperatives in Québec, many of which are forced to refuse contracts or delay growth projects due to a lack of employees.

The pandemic caused supply difficulties, resulting in delivery delays and increases in raw material costs. The interest in buying and supporting local was heightened, confirming the importance of CRCD's mission of economic development to Québecers.

Moreover, several SMEs and cooperatives went into debt during the pandemic, especially to face temporary liquidity issues. At times, this increase in debt had negative effects on the capital structure of some companies, which could ultimately limit their growth.

CRCD and its manager DC invest to support various kinds of projects. In the current context, the number of business transfers and productivity improvement projects increased remarkably. In fact, the aging population and the high value of businesses had an impact on the number of company buyouts. In addition, the health crisis reinforced the need to make a digital shift and to invest in technologies, especially clean technologies. Productivity improvement is a question of survival for many businesses and is a required step in order to ensure their growth and competitiveness in Québec and internationally.

Together with its manager, CRCD, in carrying out its mission, aims to set itself apart and play a unique role on these diverse issues that guide its actions every day.

4.2 Growing businesses stronger

Be it through the support, networking or training provided to our partner companies or through enhancing our product offering and sharing our business network, we take action 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 growth companies across all Québec regions, and supporting jobs and business successions to build a strong Québec now and for future generations. Leveraging our solid business transfer expertise, we have completed hundreds of transactions, contributing to the continuity and sustainability of Québec's flagship companies. In addition, we support start-up or early-stage companies in traditional sectors, or that use technological or industrial innovations and capitalize on new uses of existing technologies.

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 events bring together entrepreneurs, business partners and experts who have questions on topical matters such as growth challenges and business succession issues. The pandemic has prompted us to adapt our practices in this regard.

Our offering, which has been unique over the years, is once again proving itself in our ability to support our entrepreneurs in the current environment, particularly through networks that have enabled portfolio companies to help each other and also leverage opportunities arising from the pandemic landscape.

We also 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 provide personalized support to entrepreneurs to help set up advisory committees or boards of directors. We offer them advice tailored to their situation. In addition, we can call on a vast network of experienced directors whose role is to help entrepreneurs set up a governance forum to support business strategy and growth. Directors 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.

4.3 Economic conditions

2021 ECONOMIC ENVIRONMENT AND 2022 OUTLOOK

Global economy

The global economy is recovering from the successive waves of COVID-19 that have affected economic conditions since the winter of 2020. In 2021, real GDP levels in several countries, such as China and the United States, surpassed pre-pandemic levels. Vaccination campaigns have reopened large swaths of the economy, particularly in services, which have accelerated growth. However, the Omicron wave at the end of the year brought further disruptions. In 2021, the economy was also marked by supply-side issues and labour shortages that were also consequences of the pandemic. The cost of international transportation of goods, raw materials, energy and many goods increased considerably, especially beginning in the spring of 2021. Prices to the consumer also rose at an accelerating pace in most countries.

The economies of most countries are expected to grow somewhat slower in 2022 as the Omicron wave affects economic activity at the start of the year, after which it will return to a more normal pace. Economies will also continue to be affected by supply and cost problems, which should linger for part of the year. Following a 3.4% decline in 2020, global real GDP is expected to have grown 6.1% in 2021 and should expand another 3.8% in 2022.

Stock markets continued to post strong growth in 2021, benefiting from a strong recovery in both economic activity and profits. Very low interest rates and abundant liquidity also underpinned rising valuations for financial assets. However, growing concerns over inflation placed pressure on the bond markets and on central banks. As a result, the Bank of Canada ended its quantitative easing program last fall, and the U.S. Federal Reserve has begun reducing its asset purchases. North American key interest rates began to gradually rise in March 2022, and this should continue to put upward pressure on all interest rates.

United States

The U.S. economy performed well in the first half of 2021, since the COVID-19 waves were mitigated and the vaccination campaign got off to a good start. The easing and disappearance of key health measures, combined with major federal government assistance programs, resulted in annualized real GDP increases of 6.3% in the winter and 6.7% in the spring. Growth then slowed, however, as supply problems became more severe. This was particularly true in the automotive sector, where inventory shortages provoked a decline in sales. As a result, annualized real GDP growth was only 2.3% in the third quarter. The economy nevertheless rallied in the fourth quarter, surging 6.9%, driving real GDP growth to 3.1% above the pre-pandemic level. The labour market, however, did not perform as well when measured against the pre-pandemic situation, falling short of level set in February 2020 by over 2,500,000 workers, despite a record number of job openings. Inflation also surged in the U.S. The annual change in the consumer price index jumped from 1.4% at the beginning of 2021 to 7.0% in December, the highest rate recorded since 1982. This was mainly due to price increases in the energy and automotive sectors, but inflation also spread to several areas of goods and services.

Annual GDP growth is also expected to be slower in 2022. Since economic activity has surpassed its pre-pandemic level, much of the catching up is now complete. In addition, growth will be limited due to factors such as the withdrawal of federal government assistance programs, ongoing supply problems and rising inflation. In the wake of a 3.4% decline in 2020 and 5.7% growth in 2021, real GDP is expected to grow 3.3% in 2022.

Canada

In general, the Canadian economy continued to recover in 2021. The recovery did not go smoothly, though, as several challenges had to be overcome during the year. New health measures, introduced to counter a third wave of COVID-19 in the spring, combined with supply chain problems at certain companies to drive a decline in real GDP in the second quarter. However, several restrictive measures were then gradually relaxed due to the effectiveness of the vaccination campaign, allowing the economy to grow at a strong pace. New home construction and existing home sales reached all-time highs in March 2021, although they subsequently declined, largely due to a deterioration in affordability stemming from sharply higher prices. The unemployment rate continued to trend toward more normal levels during the year, falling from 8.8% in December 2020 to 6.0% in December 2021, or very close to its pre-pandemic level. In the final analysis, 2021 as a whole is expected to have produced a 4.7% increase in Canadian real GDP.

Real GDP should continue to grow throughout 2022 as the effects of the pandemic subside. For the year 2022, Canadian real GDP is expected to increase by approximately 3.8%. Accelerating growth in prices was also a concern in 2021, as supply and demand imbalances for many goods and services placed upward pressure on prices. The annual inflation rate is expected to decline gradually in 2022 as the effects of some temporary factors wear off.

Québec

Real GDP continued to recover following an unprecedented drop in 2020. As of March 2021, the Québec economy had completely recovered the lost ground, outpacing the country as a whole as well as several major industrialized countries. The province recovered quickly due to its broad-based industrial diversification and the significant weight of raw materials, which were in high demand during the global economic recovery. This was followed by positive impacts made by the successful vaccination campaign, a gradual lifting of health restrictions beginning in May 2021, and the introduction of the vaccine passport on September 1, 2021. Some of the sectors most affected by the pandemic, such as food and hospitality, have begun to recover, but this is far from complete. The unemployment rate continued to fall, reaching approximately 4.5% by the end of 2021. This matched the all-time low of 4.5% recorded in February 2020, just before the pandemic began, so labour shortages once again became a major issue. The job vacancy rate rose sharply and began to place upward pressure on wages. As elsewhere across North America, the inflation rate climbed in Québec, even exceeding 5.0% in the fall of 2021 for the fastest pace recorded since the early 1990s. In 2021, the average price of residential properties rose by more than 15% for a second consecutive year. However, high prices contributed to slower sales and new construction. Activity is expected to decline in 2022 as rising interest rates further erode affordability.

Although the Québec economy rallied strongly from the shock induced by the arrival of the pandemic, growth will be less sustained going forward. With the recovery now behind us, real GDP is expected to grow by approximately 2.0% in 2022, compared to over 6.0% in 2021. The uncertainties around the pandemic are nevertheless still present. Waves of new, more virulent or vaccine-resistant variants continue to pose a risk to the economy.

5.0 Management's discussion of financial performance

5.1 Operating results

CRCD’S NET RESULTS AND RETURNS

CRCD closed its fiscal year ended December 31, 2021 with net earnings of $234.5 million, or a return of 10.3%, compared with net earnings of $46.4 million (return of 2.1%) for the preceding year. Based on the number of common shares outstanding, this performance brings net assets per share to $17.90 as at year-end, compared with $16.22 at the end of fiscal 2020. For illustrative purposes, at the current price of $17.90, shareholders who invested seven years ago, on February 19, 2015, would obtain an annual after-tax return of more than 15.9%, taking into account the 45% income tax credit as per the rate applicable at that time.

CRCD’s results stem primarily from Investments impacting the Québec economy and Other investments, which generated returns of 18.5% and 4.4%, respectively. In 2020, these respective returns were 3.6% and 4.8%. Expenses, net of administrative charges, and income taxes had an impact of 2.2% on CRCD’s return for fiscal 2021.

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

	2021			
	Average assets under management ($M)	**Weighting (%)**	**Return 1 year (%)**	**Contribution 1 year (%)**
Activities related to Investments impacting the Québec economy [1]	**1,560**	**65.0**	**18.5**	**10.7**
Other investments and cash	**838**	**35.0**	**4.4**	**1.8**
	2,398	**100.0**	**12.5**	**12.5**
Expenses, net of administrative charges			**(2.2)**	**(2.2)**
Income taxes			**—**	**—**
CRCD's return			**10.3**	**10.3**

	2020			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy [1]	1,292	57.3	3.6	2.0
Other investments and cash	962	42.7	4.8	2.1
	2,254	100.0	4.1	4.1
Expenses, net of administrative charges			(1.9)	(1.9)
Income taxes			(0.1)	(0.1)
CRCD's return			2.1	2.1

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

INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments (including non-cash items) of $531.6 million and disposals of $226.6 million were made for a positive net balance of $305.0 million. Combined with realized and unrealized net gains of $194.4 million, these net investments brought the fair value of the portfolio, including foreign exchange contracts, to $1,798.3 million as at December 31, 2021 ($1,298.9 million as at December 31, 2020). Of the $531.6 million invested during the year, $150.0 million was allocated to three companies and $93.6 million to 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, including guarantees and suretyships, which amounted to $199.1 million as at December 31, 2021, compared with $238.2 million as at December 31, 2020. Total commitments at cost as at December 31, 2021 amounted to $1,639.8 million in 292 companies, cooperatives and funds, of which $1,440.6 million was disbursed. As at December 31, 2021, backed by its entrepreneurial ecosystem, CRCD supported growth in 672 companies, cooperatives and funds.

During fiscal 2021, Investments impacting the Québec economy generated a contribution of $243.7 million, for a return of 18.5%, compared with a contribution of $43.4 million for fiscal 2020 (return of 3.6%). The significant increase in performance between the two years was fuelled by the economy's rapid recovery from its pandemic low.

Contribution generated by Investments impacting the Québec economy

(in thousands of $)	**2021**	2020
Revenue	**48,904**	28,899
Gains and losses	**194,772**	14,491
Total	**243,676**	43,390

Revenue includes interest, dividends and negotiation fees related to Investments impacting the Québec economy. Negotiation fees, which amounted to $4.6 million for the year ended December 31, 2021 ($3.1 million in 2020), 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 $21.2 million for fiscal 2021 ($16.7 million in 2020), 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 $194.8 million in its results for the fiscal year compared with a gain of $14.5 million for fiscal 2020. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2021, the overall risk level of the Investments impacting the Québec economy portfolio reflected the aggregate impacts of the pandemic compared with its December 31, 2020 level, as discussed in the Credit and counterparty risk section.

ENTREPRENEURIAL ECOSYSTEM

CRCD invests directly in Québec companies and also fulfills 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

CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

Desjardins Capital PME s.e.c.	Desjardins Capital Transatlantic, L.P.
Capital croissance PME s.e.c.	Capital croissance PME II s.e.c.
Desjardins – Innovatech s.e.c.	Société en commandite Essor et coopération

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

- The main goal of the Desjardins Capital PME s.e.c. fund (DCPME), created on January 1, 2018, is to invest in Québec's small- and medium-sized businesses, with an investment limit generally 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. On January 1, 2020, Desjardins Holding financier inc. (DHF) became a limited partner of the DCPME fund. As at December 31, 2021, CRCD's interest in the DCPME fund was 42.1%, while the interests of the other two limited partners, Desjardins Private Management (DPM) and DHF, were 40.2% and 17.7%, respectively. On January 1, 2022, DCPME welcomed Fonds Desjardins Équilibré Québec as a new a limited partner. Since inception of the fund, CRCD has disbursed $173.4 million ($99.8 million as at December 31, 2020) allowing a total of 217 companies to benefit from $433.5 million committed by the DCPME fund.

- Jointly with France-based Groupe Siparex, on July 4, 2018, DC created two funds: 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 $108 million, to the two funds. DC Transatlantic's five-year planned investment period closes on July 4, 2023. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at December 31, 2021, CRCD had disbursed $21.5 million ($11.7 million as at December 31, 2020) of its total commitment of $32.8 million (€22.8 million), allowing 14 companies to benefit from $30.4 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. Essor et Coopération's investment period ended December 31, 2021. CRCD has a 94.6% interest in the Essor et Coopération fund. Since the fund's inception, CRCD has disbursed $48.7 million of its total commitment of $85 million. Following the investment period, CRCD maintains a commitment of $22.2 million which will be used for reinvestment and to pay the fund's operating expenses until its winding-up. As at December 31, 2021, Essor et Coopération had committed $40.5 million in 28 cooperatives.

- CRCD is also the joint sponsor of the Desjardins-Innovatech S.E.C. fund (DI) with the Economic Development Fund. 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 $0.2 million was disbursed during fiscal 2021 for a total disbursement of $3.1 million. This note does not affect the units held by CRCD in this fund. DI helps create innovative business accelerators in partnership with specialized organizations located in various regions of Québec, enabling it to support businesses from the embryonic stage through the commercialization phase. As at December 31, 2021, DI had committed $58.6 million to support a total of 50 companies and funds.

- The Capital croissance PME s.e.c. and Capital croissance PME II s.e.c. funds (collectively, the "CCPME" funds), created in 2010 and 2014, respectively, and whose investment periods have closed, 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, as sponsors of the funds, had agreed to invest, on an equal parts basis, a total amount of $540 million. As at December 31, 2021, CRCD had disbursed $255.3 million of its total commitment of $270 million. Funds committed but not disbursed will be used for reinvestment and to pay the CCPME funds' operating expenses until their winding-up. A total of 148 companies and funds benefited from $112.3 million committed by the CCPME funds as at December 31, 2021. Since their inception, the funds have committed $460.4 million to 376 companies.

In total, as at December 31, 2021, CRCD and its ecosystem supported the growth of 672 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $1,975 million. Of that total, 31 cooperatives benefited from commitments of $177 million. In this way, CRCD and its ecosystem have helped to create and retain many thousands of jobs.

Given the size of the amounts allocated to these 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 and limited partnership units that may be combined with advances and/or mainly unsecured loans and preferred shares in companies other than those included under the Startup and technology innovation profile;

- External funds: investments in funds outside CRCD's entrepreneurial ecosystem; and

- Startup and technology innovation: investments in companies in pre-startup, startup or post-startup stages.

Return by investment profile

	2021			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	**477**	**19.9**	**5.7**	**1.1**
Equity	**827**	**34.5**	**22.5**	**6.9**
External funds	**45**	**1.9**	**29.2**	**0.6**
Startup and technology innovation	**190**	**7.9**	**43.1**	**2.1**
Investment profiles subtotal	**1,539**	**64.2**	**18.8**	**10.7**
Other asset items held by ecosystem funds	**21**	**0.8**	**(3.4)**	**—**
Ecosystem total	**1,560**	**65.0**	**18.5**	**10.7**

	2020			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	424	18.8	6.9	1.2
Equity	705	31.3	1.2	0.4
External funds	47	2.1	(6.7)	(0.2)
Startup and technology innovation	99	4.4	14.0	0.5
Investment profiles subtotal	1,275	56.6	3.6	1.9
Other asset items held by ecosystem funds	17	0.7	4.8	—
Ecosystem total	1,292	57.3	3.6	1.9

The 18.5% return of the Investments impacting the Québec economy portfolio for fiscal 2021 stemmed primarily from the Equity investment profile, which recorded a 22.5% return. The return is mainly attributable to the significant appreciation of certain investments in fiscal 2021 combined with the generally solid performance of partner companies during a period of recovery. The Debt profile posted a performance slightly inferior to that of fiscal 2020. This decrease stemmed mainly from the evolution of rates charged on these types of products and the change in credit risk. The External funds and Startup and technology innovation investment profiles benefited from the markets' interest in the technology sectors. Due to their size, these two profiles have a limited impact on the portfolio's total return.

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, real estate funds and market neutral equity funds. This portfolio provides a current revenue stream for CRCD and ensures sound diversification.

As at December 31, 2021, CRCD's Other investments portfolio, including cash, but excluding foreign exchange contracts, totalled $752.3 million ($924.2 million as at December 31, 2020) and consisted of the following:

Other investments portfolio

	As at December 31, 2021		As at December 31, 2020	
	Fair value ($M)	**% of portfolio**	Fair value ($M)	% of portfolio
Cash and money market instruments	**27.4**	**3.6**	38.5	4.2
Bonds	**317.6**	**42.2**	526.8	57.0
Global equity funds	**61.9**	**8.3**	117.6	12.7
Canadian equity funds	**101.3**	**13.5**	66.6	7.2
Real estate funds	**79.2**	**10.5**	111.7	12.1
Market neutral equity funds	**164.9**	**21.9**	63.0	6.8
Portfolio total	**752.3**	**100.0**	924.2	100.0

As at December 31, 2021, 99.7% of portfolio bond securities were government guaranteed (75.0% as at December 31, 2020).

The Other investments portfolio represented 29.0% of total net assets at the end of fiscal 2021 (40.7% as at December 31, 2020), a decrease mainly arising from net divestments in the portfolio, allowing the acquisition of Investments impacting the Québec economy.

Commitments already made but not disbursed of $189.2 million, representing 7.3% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

CRCD expects the Other investments portfolio over the long term to be maintained around 30% of total net assets. In keeping with its core mission, this allows an increase in funds allocated to Investments impacting the Québec economy.

Contribution generated by Other investments

(in thousands of $)	**2021**	2020
Revenue*	**23,274**	21,955
Gain and losses	**17,503**	23,980
Total	**40,777**	45,935

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

Current income rose $1.3 million for fiscal 2021, compared with fiscal 2020, stemming from the increase of distributions received on equity funds and mitigated by the significant decrease in the bond portfolio, causing lower interest income.

Gains of $17.5 million in fiscal 2021 stemmed mainly from the following financial assets:

- The bond portfolio recorded a decrease in value of $22.3 million, as key rates rose 81 basis points, mainly during the first half of 2021, in response to a variety of crisis exit strategies, and more conservatively in the second half of the year due to inflation expectations.

- Stock markets continued to advance during the year, encouraged by a quickening economic recovery, despite the disruptions caused by the fourth and fifth waves of the pandemic and inflation. The low volatility equity funds held by CRCD, while not benefiting fully from the advancement, nonetheless saw gains of $19.9 million. Real estate funds, driven by the industrial sector, reported an increase in value of $11.8 million and market neutral equity funds gained $8.1 million.

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 securities unrelated to bond markets. Furthermore, CRCD seeks to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of changes in bond rates on CRCD's results at the same time.

SUBSCRIPTION

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

Under its constituting act, share issues are limited to an amount equal to the cost of the preceding issue period’s redemptions, up to a maximum of $150 million, unless the Québec government grants CRCD exceptional measures altering the authorized capitalization amount. Each issue period lasts 12 months and runs from March 1 to the last day of February of the following year.

In March 2021, CRCD obtained the right to issue $140 million in Class A “Issuance” shares for the 2021 and 2022 issues (the same as for the 2020 issue) and allocate a 30% tax credit rate for the purchase of such shares (35% for the 2020 issue). To allow as many shareholders as possible to buy such shares, the maximum annual subscription amount allowable was capped at $3,000 per investor, for a current tax credit of $900 ($1,050 for the 2020 issue).

In the same announcement, the provincial government also extended CRCD’s share exchange program, which offers a shareholder who defers the redemption of eligible shares for seven years the option to take advantage of a new tax credit. CRCD is authorized, for the 2021 and 2022 issue periods, to exchange shares up to an annual maximum of $50 million ($100 million for the 2020 issue). The program allows CRCD shareholders who have never redeemed shares to exchange their current eligible Class A “Issuance” shares, up to a value of $15,000 annually, for new Class B “Exchange” shares that they will also be required to hold for seven years, as consideration for a provincial tax credit of 10% of the amounts exchanged (the same as for the 2020 issue).

Accordingly, CRCD’s share capital now comprises two classes of shares: Class A “Issuance” and Class B “Exchange”. Class A shares are issued to raise capital, while Class B shares are designed to be exchanged for Class A shares.

The minimum holding period for CRCD shares, regardless of their class, before a shareholder would normally be eligible for a redemption is seven years to the day from the date of purchase or exchange. 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 or exchange 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 or exchange amounts, and control mechanisms have been implemented by CRCD to ensure compliance. For fiscal 2021 and fiscal 2020, no special tax was paid.

As at December 31, 2021, CRCD had $1,859.6 million in share capital ($1,722.3 million as at December 31, 2020) for 144,959,191 common shares outstanding (140,110,229 as at December 31, 2020).

During the year, CRCD raised $140.2 million in Class A "Issuance" shares, including the $0.5 million balance from the 2020 issue and substantially all of the authorized amount of the 2021 issue, or $139.7 million. The $0.3 million balance for the 2021 issue was sold in January 2022.

The exchange registration period for the 2020 taxation year took place in the fall of 2020, and acceptance of applications was completed and recognized in January 2021 for the maximum authorized amount of $100 million. The same timeline was followed for the 2021 exchange: the registration period took place at the end of 2021 while requests were accepted in January 2022, up to a maximum authorized amount of $50 million.

In fiscal 2021, redemptions of common shares totalled $52.7 million ($221.9 million in 2020). The high volume of redemptions in fiscal 2020 was driven by the pandemic environment which generated considerable uncertainty in the markets and triggered an upswing in redemptions, mainly from March through May.

As at December 31, 2021, the balance of shares eligible for redemption totalled $1,026.5 million. During fiscal 2022, additional shares valued at approximately $219.2 million will also become eligible for redemption bringing total potential redemptions to approximately $1,245.7 million. This amount will be reduced by $50 million for exchange requests accepted in January 2022 and the amount of shares that may be redeemed in fiscal 2022.

As at December 31, 2021, shareholders numbered 113,039 compared with 109,286 as at December 31, 2020.

CRCD's policy is to reinvest income from operations and proceeds from disposals 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 $)	**2021**	2020
Management fees	**26,168**	21,321
Other operating expenses	**8,573**	5,160
Shareholder services	**11,147**	11,270
Total	**45,888**	37,751

CRCD has entrusted the management of its operations, including the management of its Investments impacting the Québec economy and Other investments portfolios, to DC, pursuant to the terms of a management agreement concluded between them. Under this agreement, CRCD pays DC management fees equivalent to a maximum rate of 1.75% (1.75% for the year ended December 31, 2020) of CRCD's annual average assets' value, after deduction of any amounts payable related to Investments impacting the Québec economy and Other investments. An adjustment is made to the management fees to avoid double billing relative to CRCD's interest in other investment funds, whether in the Investments impacting the Québec economy portfolio or in Other investments. 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 in particular with regard to the growth of CRCD's assets. Such a downward adjustment of $2.5 million was made for the year ended December 31, 2021. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD. The increase in management fees is consistent in particular with the increase in CRCD's average value of assets under management as at December 31, 2020, as well as with the increase in volume of investments impacting the Québec economy.

The $3.4 million increase in operating expenses compared with fiscal 2020 was mainly due to higher expenses in connection with the IT master plan related to asset growth.

There was no significant change in shareholder services between the two years. The main expense regarding shareholder services is the compensation paid by CRCD to the caisses for all shareholder advisory services, determined annually based on CRCD's net assets and the degree to which share subscription and redemption transactions are automated.

The existing agreements between Desjardins Group and CRCD as at December 31, 2021 are currently under revision to be renewed.

Income tax recovery amounted to $0.1 million for fiscal 2021 compared with a $2.5 million expense for the previous year. The nature of the income has a significant impact on the income tax expense (recovery) since, unlike interest income, dividends are generally not taxable and capital gains are eligible for tax deductions and refund mechanisms. Through its strategies, CRCD aims to optimize the after-tax return by accounting for these rules.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2021, cash inflows from share issues net of redemptions amounted to $87.4 million (net cash outflows of $82.1 million in 2020). The increase between the two years was due mainly to the higher volume of share redemptions during fiscal 2020, as a result of the pandemic. Operating activities combined with fees for the development of an intangible asset generated net cash outflows of $82.7 million (net cash inflows of $57 million in 2020).

The net cash outflows is mainly attributable to cash disbursements related to Investments impacting the Québec economy, which amounted to $514.4 million for fiscal 2021 ($174.8 million in 2020). The Other investments portfolio generated net cash inflows of $193.9 million, compared with net cash inflows of $74.5 million for fiscal 2020.

As at December 31, 2021, cash and cash equivalents totalled $26.3 million ($21.6 million as at December 31, 2020).

CRCD had an authorized line of credit of $250 million as at December 31, 2021. This line of credit was drawn down during fiscal 2021. In fiscal 2020, drawdowns were required to meet the higher-than-expected volume of share redemptions amidst the public health crisis. When liquidity needs exceed available liquidity, this line of credit is used on a temporary basis to meet 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.

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

5.2 CRCD's mission, vision, 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 is 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 initiatives were carried out during fiscal 2021 by CRCD's Board of Directors. This approach allowed us to flesh out CRCD's 2024 ambitions and update our strategic priorities. The 2024 strategic plan was approved by CRCD's Board of Directors at the beginning of fiscal 2022.

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

To achieve this, CRCD is building a strategic plan which is focused on the following priorities:

- Ensure the sustainability of the business model;
- Grow capitalization; and
- Increase our impact on the economy.

CRCD's strategic plan is aligned with that of DC and Desjardins Group, which both include relevant priorities for CRCD, such as:

- Deliver a distinctive and innovative offering for entrepreneurs;
- Leverage the strengths of the broader Desjardins cooperative movement;
- Evolve DC to better support partner businesses and integrate ESG practices;
- Modernize technological foundations and boost execution capacity; and
- Attract, retain and develop talent.

As always, we have our feet on the ground to continue supporting our partner companies and sustain the growth of SMEs and cooperatives across all regions of Québec.

STRATEGIES

DC organizes its teams to optimize efficiency and control management fees. This administrative organization aims to appropriately fulfill 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 management approach allows CRCD to benefit from a balanced overall profile and limit volatility in periods of substantial market turbulence or due to unfavourable events at partner companies.

In fiscal 2021, CRCD decided to develop its financial asset management strategy. Based on the *global financial asset management policy*, that strategy 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, while ensuring that the shares remain attractive to shareholders, taking into account the tax credit.
- A sufficient portion of CRCD's financial assets must be invested in liquid securities to meet any share redemption requests that exceed issues of its Class A "Issuance" shares and agreed upon commitments in the Investments impacting the Québec economy portfolio, while taking into account available credit facilities.
- A sufficient portion of CRCD's financial assets must be invested in securities that generate current income to meet its expenses.

Under its constituting act, CRCD is required to fulfill its mission within certain guidelines, which include investing 65% of its average net assets in eligible Québec companies at December 31 of each year. 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, 2021 and 2020, all of those rules were met.

5.3 Governance

BOARD OF DIRECTORS

In accordance with CRCD’s constituting act, the Board of Directors (the “Board”) is made up of 13 directors, the majority of whom are independent persons. Furthermore, the Board must be chaired by an independent director. The following is a snapshot of the Board as of the date of this report, with one directorship vacant:

Bernard Bolduc
BBA Finance, ICD.D

President of the Board of CRCD and President, Altrum Inc.

Muriel McGrath
BA, MA, ICD.D

Vice-president of the Board of CRCD and President, MC^2 Consilium inc.

Marc Barbeau
CPA, CA, M. Fisc.

Secretary of the Board of CRCD and President and Chief Executive Officer, Ovivo Inc.

Linda Labbé
CPA, CA

Desjardins Group Relations Director and Corporate Director

Charles Auger
BBA Finance

Vice-President of Operations, Chocolats Favoris

Éric Charron
BBA Finance, AdmA, PlFin.

General Manager, Caisse Desjardins of Gatineau

Lucie Demers
CPA, CGA, CBV

Corporate Director

Marinella Ermacora
BSc, MBA, ICD.D

Corporate Director

Anne-Marie Renaud
BSc, ICD.D, CEC, ACC

Corporate Director and Executive Coach

Louis Roy
BBA, MBA, DAE

Director of Business Intelligence, Revenu Québec

Jean-Guy Senécal
FCPA, FCA, BBA

Corporate Director

Louis-Régis Tremblay
Eng., ICD.D

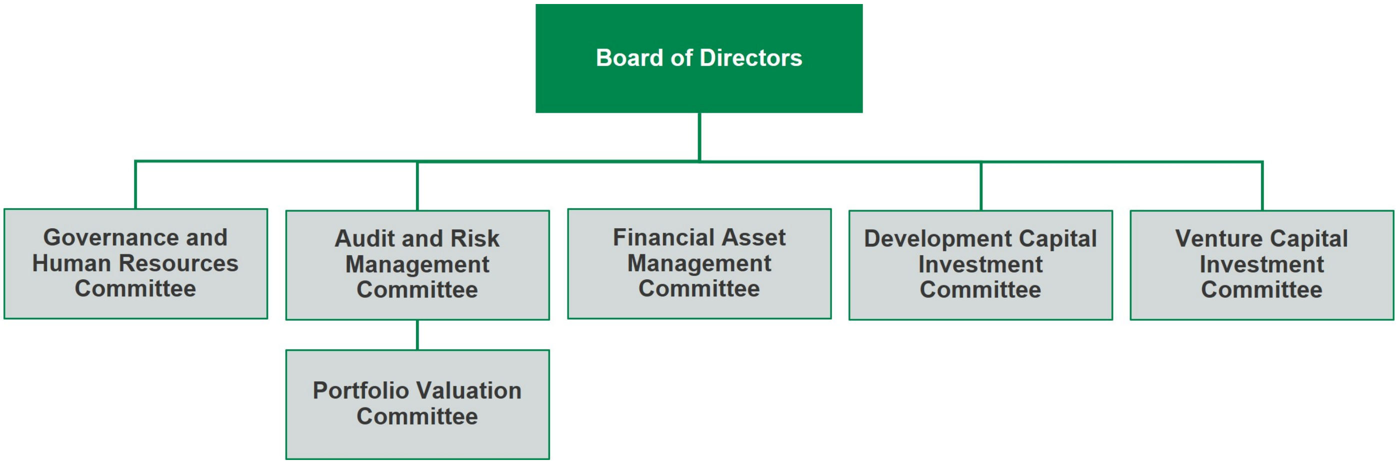
Management Consultant and Corporate Director

The Board has the general authority to manage the affairs of CRCD and oversee the fulfillment 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, shareholder relations and contracts.

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

The CRCD 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 Governance and Human Resources Committee's mandate is to provide oversight of the application of the rules relating to governance, independence, conflict of interest management, ethics and professional conduct. It is in particular responsible for drawing up skills and experience profiles for the Desjardins Group Relations Director and Board members. It also recommends to the Board an evaluation process for the performance of directors and committee members, the Board and its Chair, the committees and their chairs, the Desjardins Group Relations Director and the Manager, DC. Furthermore, the Committee ensures that a succession plan is in place for the Desjardins Group Relations Director.

This Committee also has the duty to oversee 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's general mandate is to assist the Board of Directors in its oversight and accountability roles with aspects relating to the quality, reliability and integrity of financial reporting and continuous disclosure. It ensures that the Manager, DC, has implemented and maintains effective internal control over financial reporting, safeguarding of assets and fraud detection. It receives annual certification of the manager's (DC) internal control environment in connection with the operations outsourced by CRCD. It verifies that the manager, DC, implements and maintains adequate compliance mechanisms relating to 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, recommendation of appointment and compensation of the independent auditor. The committee is made up of at least two members who have an accounting designation.

The Committee is also responsible for monitoring CRCD's overall integrated risk management process, recommending to the Board changes to *CRCD's risk management policy*, and more specifically monitors all operational and regulatory risks. It is informed of market risks related to interest rates, foreign currencies and stock markets, which are monitored by the Financial Asset Management Committee.

Financial Asset Management Committee

The Financial Asset Management 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 is also responsible for recommending to the Board the appointment of portfolio advisors. The Committee is made up of individuals 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.

The Committee also monitors market risks related to interest rates, foreign currencies and stock markets, geographic and sector concentration risk related to net assets and liquidity risk. It is informed of the sector concentration risk of Investments 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 Valuation 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 the *Regulation respecting Development Capital Investment Fund Continuous Disclosure*. 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. The majority of this committee's members are independent qualified valuators in accordance with the above Regulation.

Investment committees

The general mandate of the Development Capital and Venture Capital investment committees is to evaluate, authorize or recommend and oversee transactions related to Investments impacting the Québec economy within the limits of the decision-making processes approved by the Board and in accordance with CRCD's mission. 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 Development Capital Investment Committee reviews investments in sectors other than the technological and industrial innovation sectors for companies that have demonstrated financial results that satisfy the criteria established in the applicable policies and guidelines, and that require capital, especially for growth projects or others, as well as for those in the startup or post-startup stages. It also reviews investments in external private funds that qualify as strategic performing development capital funds.

The Venture Capital Investment Committee reviews investment requests to support companies in the technological and industrial innovation sectors with high value creation potential, that are generally in the pre-startup, startup or post-startup stage. It also reviews investments in external private funds that qualify as strategic performing venture capital funds.

These committees also have a role in overseeing investment-related reputation risk, sector concentration risk related to Investments impacting the Québec economy, and credit and counterparty risk related to Investments impacting the Québec economy. They are informed of the strategic risk associated with the investment eligibility requirements set out in CRCD's constituting act, 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 2021.

Name	Board of Directors	Governance and Human Resources Committee	Audit and Risk Management Committee	Financial Asset Management Committee	Portfolio Valuation Committee	Development Capital Investment Committee	Venture Capital Investment Committee	Compensation
Number of meetings	***10***	***6***	***5***	***4***	***2***	***25***	***10***	
Directors and external committee members active as at the date of this MD&A								
Charles Auger	9/10		4/5				9/10	$ 42,499
Marc Barbeau	10/10			4/4		25/25		$ 50,325
Bernard Bolduc	10/10	6/6						$ 70,000
Éric Charron	10/10			4/4				$ 26,000
Lucie Demers	9/10		5/5		2/2			$ 34,000
Marinella Ermacora	8/8	4/4						$ 19,807
Linda Labbé	9/10	6/6	5/5	4/4	2/2			$ 52,322
Muriel McGrath	9/10	6/6					10/10	$ 37,413
Anne-Marie Renaud	10/10					24/25		$ 38,610
Louis Roy	10/10						10/10	$ 30,000
Jean-Guy Senécal	10/10		5/5		2/2	18/20		$ 57,225
Louis-Régis Tremblay	10/10	4/4		4/4		5/5		$ 33,925
René Delsanne*				3/3				$ 8,308
Sophie Fortin *						25/25		$ 23,350
Claudia Gagné*				3/3				$ 8,308
François Gervais*						20/20		$ 18,658
Sébastien Mailhot *					2/2			$ 8,400
George Rossi *					2/2			$ 8,400
Michel Rouleau *						25/25		$ 23,350
Normand Tremblay *							10/10	$ 13,750
Francis Trudeau*					2/2			$ 8,400
Paul Vokaty *							10/10	$ 13,750
Directors and external committee members no longer in office as at the date of this MD&A								
Marlène Deveaux	2/2	2/2						$ 6,104
Total compensation								$ 632,904

* 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.

As at the date of this MD&A, the Chair of the Board of Directors and the Desjardins Group Relations Director receive annual retainers of $70,000 and $50,000, respectively. They receive no additional compensation, unless the Desjardins Group Relations director chairs a committee of which that Director is not the ex officio chair. The Director will then receive a supplementary annual retainer equivalent to the difference between the chair of the committee's expected annual retainer and that of a member director of the committee.

5.4 Risk management

POLICIES AND PRACTICES

Sound risk management practices are critical to the success of CRCD. The *risk management policy* adopted by CRCD provides the capacity to anticipate and be proactive in mitigating the impact of risk events.

NOTE TO READER

The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been audited by CRCD's independent auditor as part of the audit of the separate financial statements in respect of which an independent auditor's report was issued on February 10, 2022.

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, 2021 was $761.4 million ($975.7 million as at December 31, 2020). 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 $8.3 million ($31.5 million as at December 31, 2020) are not valued based on changes in interest rates, given their short maturities.

Bonds with a fair value of $317.6 million ($526.8 million as at December 31, 2020) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a $23.2 million decrease in net earnings, representing a 0.9% decrease in CRCD's share price as at December 31, 2021 ($37.7 million for 1.7% as at December 31, 2020). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $25.2 million increase in net earnings, representing a 1.0% increase in the share price ($41.1 million for 1.9% as at December 31, 2020). CRCD's financial asset management strategy aims to diversify the portfolio securities, thereby limiting 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 $79.2 million ($111.7 million as at December 31, 2020) 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 $408.3 million ($243.8 million as at December 31, 2020), 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 $356.3 million ($305.7 million as at December 31, 2020), are sensitive to changes in interest rates. As a result, for those interest-rate-sensitive loans and advances and preferred shares, a 1% increase in interest rates would have resulted in an $8.2 million decrease in net earnings, representing a 0.3% decrease in CRCD's share price ($4.8 million for 0.2% as at December 31, 2020). A 1% decrease in interest rates would have had the opposite effect, resulting in an $8.7 million increase in net earnings, representing a 0.3% increase in CRCD's share price ($5.0 million for 0.2% as at December 31, 2020).

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 private portfolio companies may also be affected by changes in stock prices.

As at December 31, 2021, global and Canadian equity funds, valued at $163.3 million ($184.2 million as at December 31, 2020), 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 $16.3 million increase or decrease in net earnings, representing a 0.6% increase or decrease in CRCD's share price ($18.4 million for 0.8% as at December 31, 2020).

Market-neutral equity funds, valued at $164.9 million as at December 31, 2021 ($63.0 million as at December 31, 2020), are less exposed to stock market fluctuations as they minimize market risks. As such, any stock market fluctuations would not have a significant direct impact on CRCD's net earnings.

The Investments impacting the Québec economy portfolio included listed equities in the amount of $28.1 million ($19.4 million as at December 31, 2020). Accordingly, for these investments, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $2.8 million increase or decrease in net earnings, representing a 0.1% increase or decrease in CRCD's share price ($1.9 million for 0.1% as at December 31, 2020).

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, assets whose values fluctuate due to changes in foreign exchange rates represented a fair value of $194.2 million or 7.5% of net assets as at December 31, 2021, compared with $102.9 million or 4.5% of net assets as at December 31, 2020.

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, 2021, CRCD held foreign exchange contracts under which it will be required to deliver US$114.0 million (US$69.6 million as at December 31, 2020) at the rate of CAD/USD 1.2849 (CAD/USD 1.2820 as at December 31, 2020), as well as foreign exchange contracts under which it will be required to deliver €15.8 million (€7.6 million as at December 31, 2020) at the rate of CAD/EUR 1.4555 (CAD/EUR 1.5667 as at December 31, 2020) on June 30, 2022. As at December 31, 2021, CRCD had nil collateral on its foreign exchange contracts (nil at December 31, 2020).

As at December 31, 2021, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $27.2 million ($2.6 million as at December 31, 2020). A 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a $2.7 million increase (decrease) in net earnings, representing a 0.1% change in CRCD's share price. Following the revaluation of assets carried out on December 31, 2021, the exposure to foreign currencies exceeded CRCD's internal guidelines. As a result, a foreign exchange contract was entered into on January 14, 2022 to reduce net foreign currency exposure to $0.1 million.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $61.5 million ($111.5 million as at December 31, 2020). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all other foreign currencies would have resulted in a $6.1 million increase (decrease) in net earnings, representing a 0.2% increase (decrease) in CRCD's share price ($11.2 million for 0.5% as at December 31, 2020).

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, including guarantees and suretyships. As at December 31, 2021, the 2020 impacts of the pandemic on Investments impacting the Québec economy and funds committed but not disbursed, including guarantees and suretyships, are reflected in the risk ratings. Given that the risk ratings are updated based on the annual financial statements received from our partner companies, the impacts were only partly reflected as at December 31, 2020, which largely explains the changes in portfolio breakdown by risk rating at the end of this year.

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 CreditLens 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 table below shows the movement in the Investments impacting the Québec economy portfolio, ranked by risk (fair value amounts):

		As at December 31, 2021		As at December 31, 2020	
Rating		**(in thousands of $)**	**(as a %)**	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**1,533,608**	**85.4**	1,188,307	91.5
7 to 9	At risk	**200,248**	**11.1**	71,664	5.5
10	High risk and insolvent	**62,227**	**3.5**	38,360	3.0

Furthermore, CRCD is exposed to credit risk on financial instruments not recognized in assets, which are funds committed but not disbursed, including guarantees and suretyships, 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, including guarantees and suretyships, as at the reporting date:

		As at December 31, 2021		As at December 31, 2020	
Rating		**(in thousands of $)**	**(as a %)**	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**164,861**	**82.8**	225,945	94.9
7 to 9	At risk	**28,036**	**14.1**	5,815	2.4
10	High risk and insolvent	**6,233**	**3.1**	6,466	2.7

For bond securities, which represented 43.2% of the fair value of the Other investments portfolio (57.4% as at December 31, 2020), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

	As at December 31, 2021	As at December 31, 2020
Rating [(1)]	**(in thousands of $)**	(in thousands of $)
AAA	**188,811**	184,694
AA	**114,790**	198,429
A	**14,003**	90,467
BBB	**—**	53,196

(1) 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 Fédération des caisses Desjardins du Québec.

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, industry, region or financial product, which could render CRCD vulnerable to any financial difficulties experienced by such entity, industry, 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, including guarantees and suretyships):

	As at December 31, 2021		As at December 31, 2020	
	% of portfolio	**% of net assets**	% of portfolio	% of net assets
Investments impacting the Québec economy [1]	**27.4**	**21.1**	35.6	24.1
Other investments [2]	**59.2**	**16.7**	38.7	15.6

[1] CRCD's interest in the ecosystem funds accounted for 53% (67% as at December 31, 2020) of the five largest Investments impacting the Québec economy.

[2] Government issuers and issues guaranteed by government entities, as well as diversified investment funds, represented 29% and 71% (51% and 49% as at December 31, 2020) 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, 2021, the Investments impacting the Québec economy portfolio represented 69.6% of net assets (57.8% as at December 31, 2020).

CRCD has adopted a *global financial asset management policy* and investment guidelines to govern the holding of foreign securities within the Other investments portfolio. As at December 31, 2021, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in global equity funds and comprised 91.8% of Canadian securities (89.5% as at December 31, 2020). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2021, the Other investments portfolio represented 29.0% of net assets (40.7% as at December 31, 2020).

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, 2021, bond securities represented 12.2% of net assets (23.2 % as at December 31, 2020).

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. CRCD currently has an authorized line of credit of $250 million, and subject to the available credit, an increase to the limit could be negotiated as needed. The credit facilities were used over the course of fiscal 2021 in order to meet liquidity needs that exceeded expectations. The credit facilities were also used over the course of fiscal 2020 in order to face a large increase in requests for share redemptions caused by the pandemic environment.

Given the significant balance of redeemable shares of CRCD, temporary measures were announced by the Québec government to allow eligible CRCD shareholders to commit their redeemable capital for an additional seven-year period. With an authorized annual amount of $50 million for the 2021 and 2022 issues, this initiative provides greater availability of capital for Investments impacting the Québec economy by reducing cash requirements related to share redemptions. See the Subscription section for more information.

Note that this initiative, originally provided for the 2018, 2019 and 2020 issues totalling $100 million annually, was well received by shareholders as the authorized amounts have been fully subscribed.

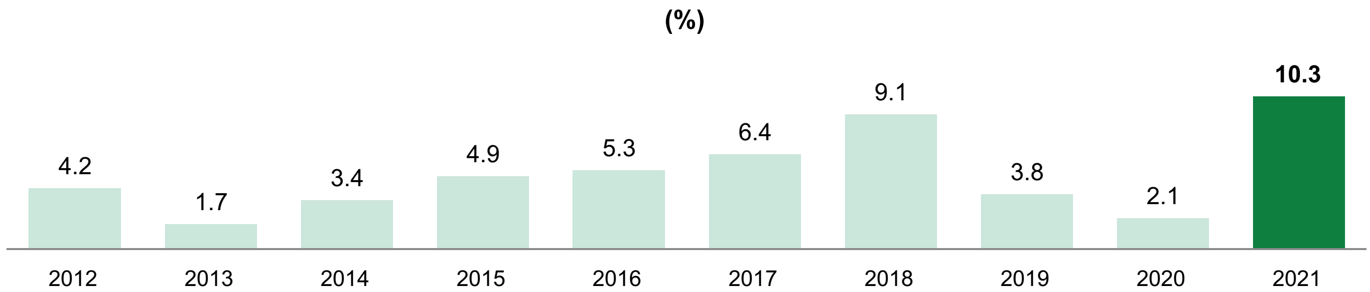
CRCD, through its balanced financial strategy, authorized line of credit, and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

6.0 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.

6.1 Annual return

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.



6.2 Compounded return of the common share as at December 31, 2021

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

10 YEARS	7 YEARS	5 YEARS	3 YEARS	1 YEAR
5.0%	5.8%	6.2%	5.3%	10.4%

7.0 Portfolio summary

7.1 Core investment profiles

As at December 31, 2021, assets in CRCD's Investments impacting the Québec economy and Other Investments portfolios were allocated, on a fair value basis, as follows:

Investment profile	% of net assets
INVESTMENTS IMPACTING THE QUÉBEC ECONOMY *	
Debt	19.8
Equity	36.8
External funds	1.8
Startup and technology innovation	10.3
Other asset items held by ecosystem funds	0.9
Total - Investments impacting the Québec economy	**69.6**
OTHER INVESTMENTS	
Cash and money market instruments	1.1
Bonds	12.2
Global equity funds	2.4
Canadian equity funds	3.9
Real estate funds	3.0
Market neutral equity funds	6.4
Total - Other investments	**29.0**

* Including foreign exchange contracts

Net assets are made up to 98.6% investment profiles and 1.4% other asset items.

7.2 Main investments held

As at December 31, 2021, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers as at December 31, 2021	% of net assets
Investments impacting the Québec economy – 16 issuers*	37.6
Government of Canada	4.9
CC&L market neutral funds	3.8
Fiera Properties CORE Fund	3.1
DGIA Canadian Equity Market Neutral Fund	2.6
Canada Housing Trust	2.4
Desjardins Global Dividend Fund	2.4
Fidelity Canadian Low Volatility Equity Institutional Trust	2.0
BMO Low Volatility Equity ETF	1.9
Province of Ontario	1.5

* The 16 issuers which collectively represented 37.6% of CRCD's net assets are:
9388-7628 Québec inc.
Avjet Holding inc.
Capital croissance PME II s.e.c.
Desjardins – Innovatech S.E.C.
Desjardins Capital PME s.e.c.
E-Solutions Furniture Group inc. (ex. Bestar)
Exo-s-inc.
Fonds Qscale s.e.c.
Fournier Industries Group inc.
Gecko Alliance Group inc.
Gestion Jérico inc.
Groupe Solotech inc.
Liberty Spring inc.
Norbec Group inc.
Sollio Groupe Coopératif
Technic-Eau Drillings inc.

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

February 10, 2022

8.0 Management's report

February 10, 2022

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, the Desjardins Group Relations director 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 fulfills 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 10, 2022. Prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, these statements have been 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