Management discussion and analysis

This annual management discussion and analysis ("MD&A") supplements the separate financial statements and contains financial highlights but does not reproduce the full separate annual financial statements of Capital régional et coopératif Desjardins (CRCD). It presents management's assessment of CRCD's results for the period reported in the separate 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 separate 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. 760, Desjardins Station, Montréal, Québec H5B 1B8, or from our website (www.capitalregional.com) or SEDAR at www.sedar.com.

Interim financial information may be obtained in the same way.

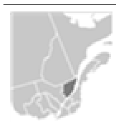
1.0 Highlights

1.1 Commitments throughout Québec

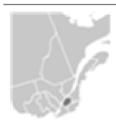
CRCD and its ecosystem[1] make a real contribution to the economic development of the regions. As at December 31, 2022, the funds committed per region were as follows:

ABITIBI-TÉMISCAMINGUE*
$33M → 38 companies
$0.6M → 1 cooperative

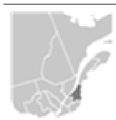
BAS-SAINT-LAURENT*
$72M → 38 companies
$0.2M → 1 cooperative



CAPITALE-NATIONALE
$174M → 78 companies
$9M → 6 cooperatives

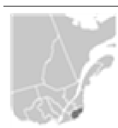


CENTRE-DU-QUÉBEC
$47M → 22 companies
$9M → 3 cooperatives



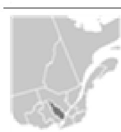
CHAUDIÈRE-APPALACHES
$258M → 72 companies
$1M → 3 cooperatives

CÔTE-NORD*
$7M → 8 companies

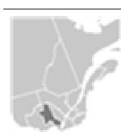


ESTRIE
$241M → 65 companies
$7M → 3 cooperatives

GASPÉSIE – ÎLES-DE-LA-MADELEINE*
$13M → 13 companies



LANAUDIÈRE
$41M → 21 companies
$5M → 2 cooperatives



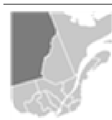
LAURENTIANS
$22M → 13 companies

LAVAL
$107M → 19 companies

MAURICIE*
$27M → 14 companies
$0.4M → 1 cooperative

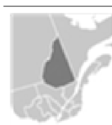
MONTÉRÉGIE
$298M → 77 companies
$39M → 1 cooperative

MONTRÉAL
$504M → 112 companies
$108M → 3 cooperatives



NORD-DU-QUÉBEC*
$7M → 19 companies

OUTAOUAIS
$12M → 14 companies



SAGUENAY–LAC-SAINT-JEAN*
$112M → 74 companies
$1M → 5 cooperatives

OUTSIDE QUÉBEC (ex Europe)
$16M → 4 companies

EUROPE
$20M → 9 companies

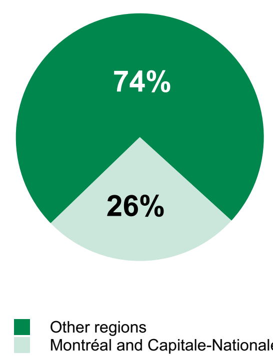
FUNDS
$85M → 18 funds

IN TOTAL

757
COMPANIES, COOPERATIVES AND FUNDS

$2,275M
BENEFITING SMEs

74%
OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND CAPITALE-NATIONALE.



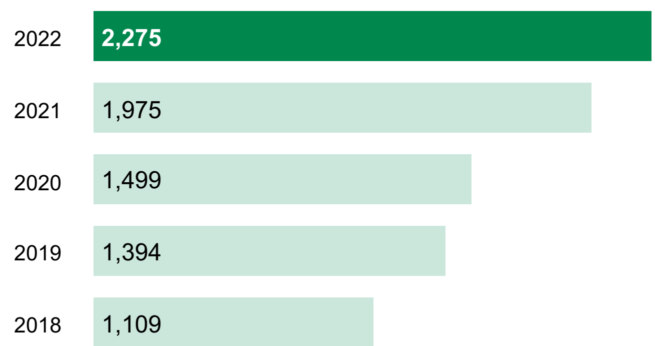
** Resource region*
[1] See the Entrepreneurial ecosystem section for a detailed description of the main features of the ecosystem.

1.2 CRCD and its ecosystem support companies and cooperatives

AS AT DECEMBER 31

Total companies, cooperatives and funds

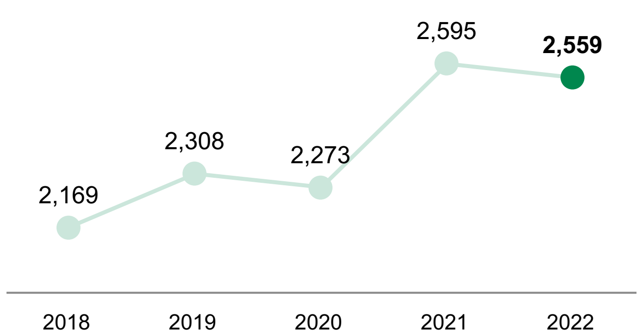
Funds committed ($M)



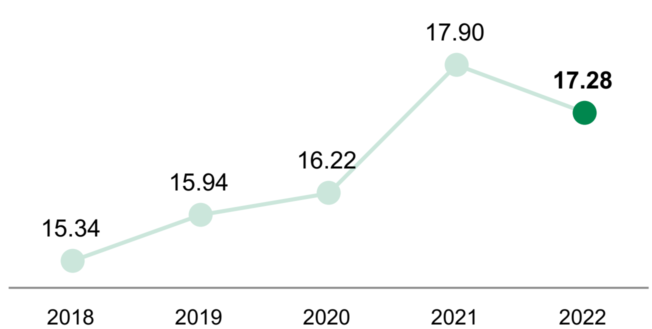
1.3 CRCD financial data

AS AT DECEMBER 31

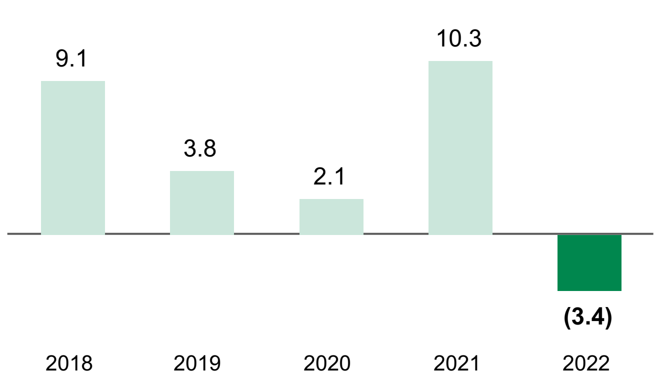
Net assets ($M)



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, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Revenue	**97,830**	67,951	48,233	55,210	70,285
Gains (losses) on investments	**(129,518)**	212,275	38,471	63,703	138,632
Net earnings (loss)	**(87,918)**	234,476	46,429	81,302	174,894
Net assets	**2,559,100**	2,594,703	2,272,798	2,308,466	2,168,804
Common shares outstanding (number, in thousands)	**148,099**	144,959	140,110	144,849	141,391
Total operating expense ratio and common share issue expense ratio [(1)] (%)	**2.0**	1.8	1.8	1.6	1.6
Portfolio turnover rate:					
– Investments impacting the Québec economy (%)	**8**	15	13	10	17
– Other investments (%)	**118**	111	100	101	163
Trading expense ratio [(2)] (%)	**—**	—	—	—	—
Number of shareholders (number)	**113,690**	113,039	109,286	109,364	107,862
Issues of common shares – Class A "Issuance"	**140,088**	140,155	139,842	140,017	141,179
Exchanges of common shares – Class B "Exchange"	**49,905**	99,855	(92)	199,445	—
Common share issue expenses, net of related taxes	**—**	—	—	—	2,523
Redemption of common shares	**87,773**	52,726	221,939	81,657	90,088
Investments impacting the Québec economy at cost	**1,658,473**	1,440,623	1,108,055	1,014,864	838,258
Fair value of Investments impacting the Québec economy	**1,938,022**	1,796,083	1,298,331	1,249,967	1,080,069
Funds committed but not disbursed including guarantees and suretyships	**222,262**	199,130	238,226	237,009	192,169

[(1)] The ratio of total operating expenses and common share issue expenses is calculated by dividing total operating expenses 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 fiscal year or by average net assets for the fiscal 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, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Net assets per common share, beginning of year	**17.90**	16.22	15.94	15.34	14.09
Increase (decrease) attributable to operations	**(0.59)**	1.67	0.34	0.58	1.28
Interest, dividends, distributions and negotiation fees	**0.67**	0.48	0.35	0.39	0.51
Operating expenses	**(0.34)**	(0.32)	(0.27)	(0.25)	(0.21)
Income taxes	**(0.02)**	—	(0.02)	(0.01)	(0.03)
Realized gains (losses)	**(0.14)**	0.34	0.56	0.25	0.79
Unrealized gains (losses)	**(0.76)**	1.17	(0.28)	0.20	0.22
Difference attributable to common share issues and redemptions	**(0.03)**	0.01	(0.06)	0.02	(0.03)
Net assets per common share, end of year	**17.28**	17.90	16.22	15.94	15.34

3.0 Overview

CRCD ended fiscal 2022 with a net loss of $87.9 million (net earnings of $234.5 million in 2021), representing a negative return of 3.4% (return of 10.3% in 2021), resulting in a decrease in net assets per share to $17.28 based on the number of shares outstanding as at December 31, 2022. 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, as was the case in 2022, or due to unfavourable events at partner companies.

Investments impacting the Québec economy posted a negative return of 0.1% in 2022, compared with a return of 18.5% in 2021. After a significant increase in performance in 2021 driven by the rapid economic recovery following the pandemic, the return for fiscal 2022 was impacted by economic uncertainty that negatively affected the profitability of companies operating in certain sectors.

As at December 31, 2022, the cost of Investments impacting the Québec economy totalled $1,658.5 million, of which $322.9 million was disbursed during fiscal 2022. As at December 31, 2022, commitments made but not disbursed, including guarantees and suretyships granted to companies, cooperatives or funds, amounted to $222.3 million. New commitments for the year totalled $346.0 million.

The Other investments portfolio recorded a negative return of 3.4%. This negative return was mainly attributable to the decline in bond prices caused by the hike in long-term interest rates during the first six-month period of the year. On the upside, real estate funds and market neutral equity strategy funds performed well. In 2021, return on the Other investments portfolio was 4.4%.

During the year, issues of Class A “Issuance” common shares totalled $140.1 million, comprising the balance of the 2021 issue and all of the maximum authorized amount for the 2022 issue. Share redemptions totalled $87.8 million, compared with $52.7 million in 2021. Net assets amounted to $2,559.1 million and shareholders numbered 113,690 as at December 31, 2022. As at December 31, 2022, the balance of shares eligible for redemption totalled $1,070.8 million. For more information, please see the Subscriptions section of this MD&A.

3.1 Our vision for Québec entrepreneurship

First of all, we applaud the resilience and passion of Québec entrepreneurs. Despite the difficult last few years, they repeatedly demonstrated their ability to overcome adversity. While 2021 ended with growth and 2022 allowed somewhat for a return to normalcy, other challenges emerged. The various levels of government supported companies during the pandemic, but the termination of these aid programs contributed to the slowdown in the second half of 2022.

Several companies went into debt during the pandemic, which impacted their capital structure and limited their capacity for growth. We must therefore redouble our efforts to support and promote our partner companies and cooperatives and help them through the economic slowdown.

Small businesses, which have a significant impact on GDP, exports and employability, are omnipresent in Québec. Already weakened by the labour shortage and supply chain issues, they now have to deal with inflationary pressures and their limited ability to borrow. They will need assistance in order to stay competitive and manage their environmental transition. They will have to be combative, bold and surround themselves with allies.

Amid the current challenges, including the aging population, business transfers remain essential for maintaining and developing our regions. We will continue to encourage the next generation and business succession so that the entrepreneurs of yesterday can enjoy their retirement, those of today can prosper and those of tomorrow can dream.

3.2 Growing businesses stronger

Building on nearly 50 years of expertise, Desjardins Capital, CRCD’s manager, is one of the most active players in development and venture capital in Québec. Together, we are an indispensable business partner, supporting over 750 businesses, cooperatives and funds in various industries spanning all Québec regions. In addition to maintaining and creating several thousands of jobs, we are a major economic leader for ensuring the province’s vitality.

We leverage our teams’ expertise and skills in investment, external funds management, business performance and business expertise and in finance and institutional services. In addition to our activities in investment and promoting Québec SMEs and cooperatives, we offer trainings and products adapted and tailored to their needs. They can also benefit from our vast business network to support their growth and from our synergy with the whole Desjardins Group, including over thirty Desjardins Business centres.

Our closeness with our partner companies, our well-established, trust-based relationships and our deep knowledge of regional issues enable us to play the key role of catalyst in the entrepreneurial ecosystem to support the start up, development, transfer and succession of Québec businesses and flagships.

We work together with entrepreneurs to support them in integrating environmental, social and governance (ESG) criteria, by advocating education and awareness. We perform ESG diagnostics to determine their maturity and areas of support required and then provide recommendations and regularly evaluate their progress.

Inspired by industry best practices in sound governance, we also support entrepreneurs in setting up advisory committees and boards of directors. We offer them support and tools adapted to their realities. Moreover, we recruit and recommend experienced independent directors who can offer expertise related to their company's ambitions. These directors have access to numerous tools and regularly conduct trainings and assessments to meet the highest standards of collaboration. Our skills in governance and our support, based on agility, simplicity, strategic thinking and alignment with business needs, distinguishes us in the market.

Our closeness with the Québec entrepreneurial ecosystem and our specialized support ensures that we are actively contributing to the lasting prosperity of people and communities by investing in the growth and sustainability of local businesses.

3.3 Economic conditions

2022 ECONOMIC ENVIRONMENT AND 2023 OUTLOOK

Global economy

In 2022, the global economy continued to recover from the pandemic. However, the 3.1% growth in global real GDP recorded for 2022 fell significantly short of the 6.2% gain in 2021. Several economies also struggled during the period. Global production was affected by waves of COVID-19, particularly in China and, more importantly, it was further hampered by the war in Ukraine. This led to a surge in prices for raw materials, including energy and food. The war also led to more supply chain problems, further exacerbating inflation, which was already high in many parts of the world. The war's impacts were most apparent in Europe, including the United Kingdom, which faced sharply higher energy prices that undermined household incomes and severely wore down consumer confidence. In China, the economy suffered when major cities were closed in the spring and fall under the government's zero-COVID policy.

Growth is expected to slow even further in most countries in 2023, as the rising cost of living continues to erode real consumer income and interest rate hikes suppress demand for goods and services, particularly in the housing market. Global real GDP growth for 2023 is projected at only 2.2%.

The world's major equity indices posted significant declines in 2022. Although the inflationary environment continued to support growth in corporate profits, surging interest rates took a heavy toll on returns in the financial markets. Higher interest rates first hit government bonds early in the year, and the central banks quickly followed suit with cycles of monetary tightening in Canada, the United States and elsewhere in the world. With the entire yield curve now at the highest levels in 15 years, the risks are driving down economic growth, and this may continue to weigh on equity market performance.

United States

The U.S. economy faced several challenges in 2022. Real GDP actually declined in the first two quarters of the year. However, it was difficult to speak of a recession at that time, as several other indicators, including domestic demand and the labour market, continued to rise. Real GDP growth improved in the third and fourth quarters. Inflation remained problematic throughout 2022, although it peaked at 9.1% in June according to the annual change in the consumer price index. In order to fight excessive growth in the cost of living and keep inflationary expectations under control, the U.S. Federal Reserve began monetary tightening in March and subsequently picked up the pace. The sharp increase in policy rates and market rates, including those on mortgages, was detrimental to the economy. The problems began in the housing market, which declined for most of the year. There was also a marked slowdown in the consumption of goods, even though the post-pandemic recovery in the consumption of services continued unabated.

Annual GDP growth is expected to be sluggish in 2023 as households and businesses continue to be affected by rising interest rates. A recession is therefore expected. A recovery should become apparent in the second half of 2023 as inflation eases and the economy, including the labour market, rebalances. U.S. real GDP grew by a strong 5.9% in 2021 and a respectable 2.1% in 2022, but only 0.7% growth is expected in 2023.

Canada

The Canadian economy continued to recover at a healthy pace in the first half of 2022. In June, the unemployment rate even reached a new historic low of 4.9%. However, there have been significant imbalances due to a combination of strong demand and supply that was constrained by problems in global supply chains and some shortages. As in many other regions of the world, these imbalances caused inflation to accelerate sharply, from 4.8% in December 2021 to a high of 8.1% in June 2022. To bring supply and demand back into better balance and ease the pressures driving up prices, the Bank of Canada began raising its key interest rates in March 2022, followed by other increases throughout the year. By the end of 2022, the target overnight rate stood at 4.25%, up from just 0.25% at the start of the year.

Sharply higher interest rates have had a significant impact on the Canadian economy, particularly in sectors that are most sensitive to interest rates. The housing market declined sharply as prices slipped and sales of existing homes fell. Under these conditions, real GDP growth slowed in the second half of 2022. On the other hand, the much tighter monetary policy began to affect inflation, which began a gradual decline in July 2022. For 2022 as a whole, Canadian real GDP is expected to have grown 3.6%, and inflation should average 6.8%. The problems are expected to peak in 2023 and provoke a recession in Canada. However, Canadian real GDP is expected to post positive growth again in the fall. For 2023 as a whole, Canadian real GDP is expected to be almost of approximately 0.7%. Inflation should continue to normalize throughout the year and average 3.5% for 2023.

Québec

Following an exceptional start to the year, economic growth slowed sharply in the spring of 2022. Annualized real GDP growth fell from 5.5% in the first quarter to 1.2% in the second quarter. The second half of 2022 was particularly challenging. In the third quarter, real GDP contracted at an annualized rate of 1.9%, which could be marking the beginning of a recession. The housing market, which changed course in spring 2022, continued to cool. Sales of existing homes declined, with the average price falling 6.9% from the high reached in April to December 2022. Housing starts declined approximately 15% in 2022, ending the strong growth recorded during the pandemic. Rising interest rates also placed pressure on household spending, which was sorely tested. Consumers were contending with high inflation, which was eroding their purchasing power. The inflation rate reached 6.7% in 2022, and Quebecers' confidence plummeted to a level almost as low as that reached at the height of the pandemic. The savings rate, however, remained high at close to 10% in 2022 due to government support measures and relatively limited consumer spending. The overheated labour market conditions nevertheless continued. The unemployment rate reached 4.3% in 2022, and wages grew quickly. As for businesses, supply chain disruptions began to ease, and the cost of shipping containers by sea from Asia fell to near pre-pandemic levels. However, exporting companies are confronted with the global economic slowdown that began in 2022. In addition, high interest rates have made highly leveraged households and businesses more vulnerable. The environment in Québec became more difficult in 2022, and the deterioration of the economy will continue in 2023.

4.0 Management's discussion of financial performance

4.1 Operating results

CRCD'S NET RESULTS AND RETURNS

CRCD closed its fiscal year ended December 31, 2022, with a net loss of $87.9 million, or a negative return of 3.4%, compared with net earnings of $234.5 million (return of 10.3%) for 2021. As a result, based on the number of common shares outstanding, net assets per share amounted to $17.28 as at year-end, compared with $17.90 at the end of fiscal 2021. For illustrative purposes, at the current price of $17.28, shareholders who invested seven years ago, on February 18, 2016, would obtain an annual after-tax return of more than 11.2%, taking into account the 40% 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 negative returns of 0.1% and 3.4%, respectively. For 2021, Investments impacting the Québec economy and Other investments posted returns of 18.5% and 4.4% respectively. Expenses, net of administrative charges and income taxes, had an impact of 2.2% on CRCD's return. Financial expenses had a negative impact of 0.1% on CRCD's return.

With significant declines in the stock and bond markets, CRCD was able to limit the decrease in profitability of its various portfolios, owing to its asset allocation strategy aimed at achieving a more balanced portfolio profile, while fully contributing to Québec's economic development.

Return by activity

	2022			
	Average assets under management ($M)	**Weighting (%)**	**1 year return (%)**	**1 year contribution (%)**
Activities related to Investments impacting the Québec economy [(1)]	**1,880**	**74.0**	**(0.1)**	**(0.1)**
Other investments and cash	**659**	**26.0**	**(3.4)**	**(1.0)**
Financial expenses			**(0.1)**	**(0.1)**
	2,539	**100.0**	**(1.2)**	**(1.2)**
Expenses, net of administrative charges			**(2.1)**	**(2.1)**
Income taxes			**(0.1)**	**(0.1)**
CRCD's return			**(3.4)**	**(3.4)**

	2021			
	Average assets under management ($M)	Weighting (%)	1 year return (%)	1 year contribution (%)
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

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

As at December 31, 2022, the amount drawn from the operating credit facility amounted to $4.5 million (nil as at December 31, 2021). Financial expenses related to this credit facility were recorded in the results of the financial year. Refer to the Liquidity and capital resources section for details on the credit facility used.

INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of $405.8 million and disposals of $189.8 million (including non-cash items) were made for a positive net balance of $216.0 million. Combined with realized and unrealized net losses of $77.1 million, these net investments brought the fair value of the Investments impacting the Québec economy portfolio, including foreign exchange contracts, to $1,938.3 million as at December 31, 2022 ($1,798.3 million as at December 31, 2021).

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, including guarantees and suretyships, which amounted to $222.3 million as at December 31, 2022, compared with $199.1 million as at December 31, 2021. Commitments already made but not disbursed of $212.3 million, representing 8.3% of net assets, will eventually be made from the Other investments portfolio and credit facilities and allocated to Investments impacting the Québec economy.

Total commitments at cost as at December 31, 2022, amounted to $1,880.7 million in 393 companies, cooperatives and funds, of which $1,658.5 million was disbursed. As at December 31, 2022, backed by its entrepreneurial ecosystem, CRCD supported growth in 757 companies, cooperatives and funds.

During fiscal 2022, Investments impacting the Québec economy generated a negative contribution of $1.4 million, for a negative return of 0.1%, compared with a contribution of $243.7 million for fiscal 2021 (return of 18.5%). After a significant increase in performance in 2021 with the rapid economic recovery following the pandemic, the return for fiscal 2022 was impacted by economic uncertainty that negatively affected the profitability of companies operating in certain sectors.

Contribution generated by Investments impacting the Québec economy

(in thousands of $)	**2022**	2021
Revenue	**75,648**	48,904
Gains and losses	**(77,066)**	194,772
Total	**(1,418)**	243,676

Revenue includes interest, dividends and negotiation fees related to Investments impacting the Québec economy. Negotiation fees, which amounted to $4.8 million for the year ended December 31, 2022 ($4.6 million in 2021), are earned by Desjardins Capital, the manager, and a credit for that amount is applied against the management fees paid to Desjardins Capital 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 places significant importance on the amounts injected into its ecosystem funds (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 $20.7 million for fiscal 2022 ($21.2 million for fiscal 2021), 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 in its results for the fiscal year a realized and unrealized loss of $77.1 million compared with a gain of $194.8 million for fiscal 2021. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2022, the overall risk level of the Investments impacting the Québec economy portfolio was relatively stable compared with its December 31, 2021 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 Transatlantique, 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, Desjardins Capital, are detailed below:

- The main goal of Desjardins Capital PME s.e.c. fund (DCPME), created on January 1, 2018, is to invest in Québec's small- and medium-sized businesses. This sustainable fund is an open-ended limited partnership, allowing the number of limited partners to vary. The limited partners' commitments are generally made on an annual basis. As at December 31, 2022, CRCD's interest in the DCPME fund was 39.5%, while the interests of the other three limited partners, the DIM Private Completion Strategy Fund (DIM), Desjardins Holding Financier (DHF), and Desjardins Québec Balanced Fund (DQBF), were 60.5%, collectively. As at December 31, 2022, CRCD has disbursed $185.6 million ($173.4 million as at December 31, 2021) allowing a total of 260 companies to benefit from $546.3 million committed by the DCPME fund.

- Jointly with France-based Groupe Siparex, on July 4, 2018, Desjardins Capital 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 $109 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. As at December 31, 2022, CRCD had disbursed $25.4 million ($21.5 million as at December 31, 2021) of its total commitment of $47.5 million (€32.8 million), allowing 14 companies to benefit from $31.8 million committed by the fund.

- The objective of the Société en commandite Essor et Coopération (Essor et Coopération), established on January 1, 2013, and whose investment period ended December 31, 2021, was to support the creation, growth and capitalization of cooperatives in Québec. CRCD and other partners, including three from the cooperative sector, had made commitments totalling $89.9 million. CRCD has a 94.6% interest in the Essor et Coopération fund. Since the fund's inception, CRCD has disbursed $49.3 million of its total commitment of $85 million. As at December 31, 2022, despite the close of the investment period, CRCD maintained a commitment of $21.6 million which will be used for reinvestment and to pay the fund's operating expenses until its winding-up. As at December 31, 2022, Essor et Coopération had committed $37.6 million in 26 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 $0.4 million was disbursed during fiscal 2022 for a total disbursement of $3.5 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, 2022, DI had committed $56.7 million to support a total of 44 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. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the funds, had agreed to invest, on an equal parts basis, a total amount of $540 million. As at December 31, 2022, CRCD had disbursed $256.2 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 110 companies and funds benefited from $79.6 million committed by the CCPME funds as at December 31, 2022. Since their inception, the funds have committed $460.4 million to 376 companies.

In total, as at December 31, 2022, CRCD and its ecosystem supported the growth of 757 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $2,275 million. Of that total, 29 cooperatives benefited from commitments of $181 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 as follows:

- Debt: investments in the form of advances and/or mainly unsecured loans and/or non-participating 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

	2022			
	Average assets under management ($M)	Weighting (%)	1 year return (%)	1 year contribution (%)
Debt	533	21.0	2.1	0.4
Equity	1,007	39.6	1.3	0.5
External funds	52	2.1	10.0	0.2
Startup and technology innovation	271	10.7	(11.4)	(1.2)
Investment profiles subtotal	1,863	73.4	(0.2)	(0.1)
Other asset items held by ecosystem funds	17	0.6	2.5	—
Ecosystem total	1,880	74.0	(0.1)	(0.1)

	2021			
	Average assets under management ($M)	Weighting (%)	1 year return (%)	1 year contribution (%)
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

The negative 0.1% return of the Investments impacting the Québec economy portfolio for fiscal 2022 stemmed partly from the Startup and technological innovation investment profile, which recorded a negative return of 11.4%. After generating strong growth in 2021, the negative return was mainly due to a stock market decline in this sector, making it more difficult to find funding for these companies. The Debt and Equity profiles did not perform as well as in 2021 because of current market conditions, namely the sharp increase in corporate bond rates during the year, inflation, the downturn in equity markets, and because of difficulties our partner companies encountered regarding supply chain issues and labour scarcity. External funds generated a solid return in 2022, driven mainly by a significant gain in one of our holdings.

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 up to December 2022, Canadian equity funds, real estate funds, infrastructure funds and market neutral equity funds. This portfolio provides a current revenue stream for CRCD and ensures sound diversification.

As at December 31, 2022, CRCD's Other investments portfolio, including cash, but excluding foreign exchange contracts and the bank overdraft, totalled $566.7 million ($752.3 million as at December 31, 2021) and consisted of the following:

Other investments portfolio

	As at December 31, 2022		As at December 31, 2021	
	Fair value ($M)	**% of portfolio**	Fair value ($M)	% of portfolio
Cash and money market instruments	**6.6**	**1.1**	27.4	3.6
Bonds	**274.1**	**48.4**	317.6	42.2
Global equity funds	**—**	**—**	61.9	8.3
Canadian equity funds	**57.7**	**10.2**	101.3	13.5
Real estate funds	**126.9**	**22.4**	79.2	10.5
Infrastructure funds	**28.9**	**5.1**	—	—
Market neutral equity funds	**72.5**	**12.8**	164.9	21.9
Portfolio total	**566.7**	**100.0**	752.3	100.0

As at December 31, 2022, 99.7% of portfolio bond securities were government guaranteed (99.7% as at December 31, 2021).

The Other investments portfolio accounted for 22.1% of total net assets as at the end of fiscal 2022 (29.0% as at December 31, 2021). This decrease is mainly due to significant divestments made during the year to rebalance the total equity asset allocation by divesting from the Global Dividend Fund and to partially repay the credit facility by divesting some of the market neutral equity funds.

CRCD aims to maintain an overall asset allocation of approximately 30% in fixed income securities and market-neutral equity strategy funds. Changes are made to the Other investments portfolio from time to time to adjust to changes in the Investments impacting the Québec economy portfolio.

Contribution generated by Other investments

(in thousands of $)	**2022**	2021
Revenue	**26,669**	23,274
Gains and losses	**(52,451)**	17,503
Total	**(25,782)**	40,777

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.

Revenue for fiscal 2022 was up $3.4 million compared to the same period in 2021, due to the increase in distributions received on the equity and real estate funds, and by higher interest income on the bond portfolio following an increase in effective rates during the year.

Losses of $52.5 million in fiscal 2022 stemmed mainly from the following financial assets:

- Bonds recorded a loss of $51.1 million, as 10-year government bond yields rose 188 basis points during the fiscal year, especially in the first six-months, in response to inflationary pressures.
- Equity funds suffered stock market setbacks with a loss of $6.1 million, including $3.8 million for global equity funds completely divested in December 2022.
- Real estate funds realized net gains of $7.1 million, mainly during the first half of the year.
- Finally, market neutral equity funds recorded a loss of $3.9 million, but this was more than offset in revenue by a distribution of $10.7 million.

The financial asset management strategy is designed to use the Other investments portfolio to provide a balanced overall profile and limit volatility in periods of substantial market turbulence or unfavourable events at partner companies. 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.

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 had obtained the right to issue $140 million in Class A "Issuance" shares for the 2021 and 2022 issues and allocate a 30% tax credit rate for the purchase of such shares. 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 tax credit of $900.

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 was authorized, for the 2021 and 2022 issue periods, to exchange shares up to an annual maximum of $50 million. The program allowed CRCD shareholders who had 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 would also be required to hold for seven years, as consideration for a provincial tax credit of 10% of the amounts exchanged.

Accordingly, CRCD's share capital 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. No special tax was paid for fiscal 2022 or 2021.

As at December 31, 2022, CRCD had $1,963.9 million in share capital ($1,859.6 million as at December 31, 2021) for 148,098,572 common shares outstanding (144,959,191 as at December 31, 2021).

During the year, CRCD raised $140.1 million in Class A "Issuance" shares, or the balance from the 2021 issue and all of the 2022 issue, compared to $140.2 million in 2021. The subscription period for the 2023 issue will begin in the fall.

The exchange registration period for the 2022 taxation year took place in the fall of 2022 and acceptance of applications was completed and recorded in January 2023 for an authorized amount of $50 million.

In fiscal 2022, redemptions of common shares totalled $87.8 million, compared with $52.7 million in 2021.

As at December 31, 2022, the balance of shares eligible for redemption totalled $1,070.8 million. During fiscal 2023, additional shares valued at approximately $175.8 million will also become eligible for redemption bringing total potential redemptions to approximately $1,246.6 million. This amount will be reduced by $50 million for exchange requests accepted in January 2023 and the number of shares that may be redeemed in fiscal 2023.

As at December 31, 2022, shareholders numbered 113,690 compared with 113,039 as at December 31, 2021.

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 $)	**2022**	2021
Management fees	**27,791**	26,168
Other operating expenses	**9,518**	8,564
Shareholder services	**12,373**	11,147
Total	**49,682**	45,888

CRCD has entrusted the management of its operations, including the management of its Investments impacting the Québec economy and Other investments portfolios, to Desjardins Capital, pursuant to the terms of a management agreement concluded between them. Under this agreement, CRCD pays Desjardins Capital management fees equivalent to a maximum rate of 1.75% 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. Desjardins Capital and CRCD have agreed that, for a given fiscal year, an adjustment could also be made to allow CRCD to benefit from economies of scale realized by Desjardins Capital in particular in relation to the growth in CRCD's assets. Such a downward adjustment of $6.0 million was made for the year ended December 31, 2022. The negociation fees from the portfolio companies are earned by Desjardins Capital, and their amount is deducted from the management fees payable by CRCD. The increase in management fees is mainly due to the increase in CRCD's average value of assets under management as at December 31, 2022, compared with 2021.

The $0.9 million increase in operating expenses compared to fiscal 2021 was mainly due to higher expenses related to the IT master plan to support long-term asset growth.

Shareholder services increased by $1.2 million compared to fiscal 2021, driven primarily by the higher spending on the development of applications for the supply of services. The main expense under shareholder services, whose variation compared to the year ended December 31, 2021 is insignificant, was 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 agreements in effect as at December 31, 2022 between the different entities of the Desjardins Group and CRCD are currently under review ahead of their renewal.

Income tax expense amounted to $3.5 million for fiscal 2022, compared with a $0.1 million recovery for fiscal 2021. 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. CRCD’s strategy is to optimize the after-tax return taking into account these rules.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2022, cash inflows from share issues net of redemptions amounted to $52.3 million (net cash inflows of $87.4 million in 2021). For fiscal 2022, operating activities combined with fees for the development of intangible assets generated net cash outflows of $77.2 million (net cash outflows of $82.7 million in 2021). After including disbursements and proceeds from disposals from Investments impacting the Québec economy, CRCD reported net cash outflows of $180.2 million (net cash outflow of $293.5 million in 2021) at the end of fiscal 2022. These outflows were partly offset by the Other investments portfolio, which generated net cash inflows of $108.2 million, (inflows of $193.9 million in 2021), especially with the divestments in global equity funds and some of the market neutral equity funds.

As at December 31, 2022, cash and cash equivalents totalled $1.5 million ($26.3 million as at December 31, 2021).

CRCD had an authorized line of credit of $300 million as at December 31, 2022. This line of credit was used during the year to bridge the gap between cash inflows and outflows, especially for Investments impacting the Québec economy. As at December 31, 2022, the amount drawn from the operating credit facility amounted to $4.5 million (nil as at December 31, 2021). For fiscal 2022, the average balance for the operating credit facility was $128.5 million ($1.2 million in 2021). Although CRCD could dispose of sufficient additional investments to repay the credit facility in full, CRCD plans to use the credit facility, as needed, to maintain a sound allocation of its assets, and to avoid having to make disposals under potentially unfavourable conditions. To maintain some flexibility for CRCD's current operating financing requirements, an increase in the credit facility from $250 million to $300 million was authorized by CRCD's Board of Directors on August 11, 2022.

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 facility, CRCD does not anticipate any shortfall in liquidity in the short or medium term and expects to be able to redeem eligible shares from those shareholders who make such a request.

4.2 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, Desjardins Capital, 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 building bridges to the future, we’re working together to energize our economy.*

Steps will be taken to update CRCD’s mission statement in 2023.

CRCD’S VISION AND STRATEGIC PRIORITIES

In 2022, the Board of Directors approved a strategic plan setting out CRCD's ambitions and priorities through 2024. Each year, the Board establishes an implementation plan and monitors its progress and key performance indicators quarterly to realize its goals.

CRCD aims to be the #1 choice of investors wishing to contribute to the regional vitality of Québec and to remain a beacon to entrepreneurs and SMEs, by prioritizing:

- The sustainability of its business model;
- The growth of its capitalization; and
- A greater impact on the Québec economy.

CRCD's strategic plan is aligned with that of Desjardins Capital and Desjardins Group, each of which includes relevant goals for CRCD. Together, we are always there for investors and entrepreneurs, supporting the growth of SMEs and cooperatives across all regions of Québec.

STRATEGIES

Desjardins Capital 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.

To do this, the strategy based on the *Global Financial Asset Management Policy* 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, ensuring that the shares remain attractive to shareholders with due consideration to the tax credit they enjoy.
- A sufficient portion of CRCD's financial assets must be invested in liquid securities to meet any share redemption requests that exceed issues 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.

Finally, 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, 2022, and 2021, all of those rules were met.

4.3 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

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

Muriel McGrath
BA, MA, ICD.D

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

Marc Barbeau
CPA, M. Fisc.

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

Linda Labbé
CPA

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

Annie Demers
CPA

Organizational Development Advisor, Québec City

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, BBA

Corporate Director

Louis-Régis Tremblay
Eng., ICD.D

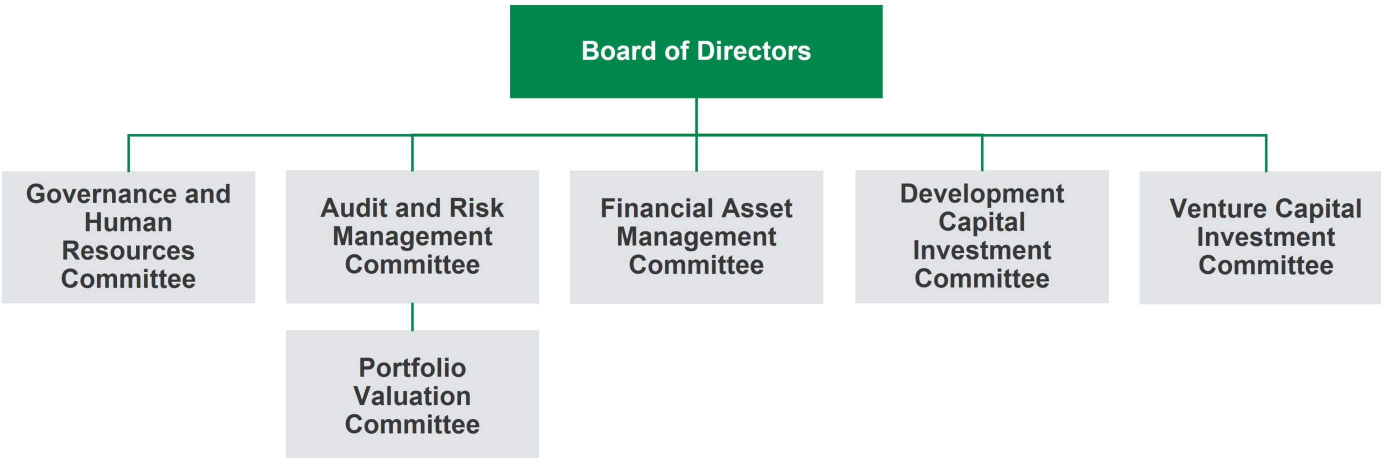
Management Consultant and Corporate Director

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, Desjardins Capital, reports on outsourced activities through its executives who attend meetings of the Board and the committees.

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. 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 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 has implemented and maintains effective internal control over financial reporting, safeguarding of assets and fraud detection. It receives annual certification of the manager's internal control environment in connection with the operations outsourced by CRCD. It verifies that the manager 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 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 process 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 2022.

Names	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	**8**	**5**	**5**	**4**	**4**	**20**	**13**		
Directors and external committee members active as at the date of this MD&A									
Charles Auger	8/8	-	5/5	-	-	-	13/13	$	44,000
Marc Barbeau	8/8	-	-	4/4	-	20/20	-	$	62,000
Bernard Bolduc	7/8	4/5	-	-	-	-	-	$	70,000
Éric Charron	7/8	-	-	3/4	-	-	-	$	26,000
Annie Demers	6/6	-	-	-	2/3	-	-	$	19,999
Marinella Ermacora	8/8	5/5	4/4	-	-	-	-	$	32,088
Linda Labbé	7/8	5/5	5/5	4/4	4/4	-	-	$	73,589
Muriel McGrath	8/8	5/5	-	-	-	-	12/13	$	36,000
Anne-Marie Renaud	7/8	-	-	-	-	19/20	-	$	50,000
Louis Roy	8/8	-	-	-	-	-	13/13	$	30,000
Jean-Guy Senécal	8/8	-	5/5	-	4/4	20/20	-	$	72,000
Louis-Régis Tremblay	7/8	5/5	-	4/4	-	-	-	$	32,000
Marco Champagne *	-	-	-	-	3/4	-	-	$	9,600
René Delsanne*	-	-	-	3/4	-	-	-	$	10,000
Lucie Demers*	1/2	-	1/1	-	4/4	-	-	$	16,024
Sophie Fortin *	-	-	-	-	-	18/20	-	$	20,500
Claudia Gagné*	-	-	-	4/4	-	-	-	$	11,000
François Gervais*	-	-	-	-	-	20/20	-	$	22,000
Mario Gosselin *	-	-	-	-	-	15/16	-	$	16,577
Sébastien Mailhot *	-	-	-	-	3/4	-	-	$	9,600
Normand Tremblay *	-	-	-	-	-	-	13/13	$	16,750
Francis Trudeau*	-	-	-	-	3/4	-	-	$	9,600
Paul Vokaty *	-	-	-	-	-	-	13/13	$	16,750
Directors and external committee members no longer in office as at the date of this MD&A									
George Rossi *	-	-	-	-	4/4	-	-	$	10,800
Michel Rouleau *	-	-	-	-	-	3/4	-	$	3,918
TOTAL COMPENSATION								**$**	**720,795**

* 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. 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 $60,000, respectively. They receive no additional compensation, unless the Desjardins Group Relations director chairs a committee of which they are not the ex officio chair. They 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.

4.4 Risk management

PRACTICES AND POLICIES

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 THE READER**
>
> The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been reviewed by CRCD's independent auditor as part of the audit of the separate financial statements concerning which an independent auditor's report was issued on February 16, 2023.

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 rates 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, real estate funds and infrastructure 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, 2022, was $829.4 million ($761.4 million as at December 31, 2021). 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 $0.8 million ($8.3 million as at December 31, 2021) are not valued based on changes in interest rates, given their short maturities.

Bonds with a fair value of $274.1 million ($317.6 million as at December 31, 2021) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a $32.6 million decrease in net earnings, representing a 1.3% decrease in CRCD's share price as at December 31, 2022 ($23.2 million for 0.9% as at December 31, 2021). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $37.6 million increase in net earnings, representing a 1.5% increase in the share price ($25.2 million for 1.0% as at December 31, 2021). 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 and infrastructure funds with fair values of $126.9 million and $28.9 million, respectively, as at December 31, 2022 ($79.2 million and nil as at December 31, 2021) may also be affected by interest rate fluctuations. However, unlike bonds, there is no direct correlation between interest rate fluctuations and changes in the fair value of these classes of assets.

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 $508.3 million ($408.3 million as at December 31, 2021), 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 $398.8 million ($356.3 million as at December 31, 2021), 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 $8.7 million decrease in net earnings, representing a 0.3% decrease in CRCD's share price ($8.2 million for 0.3% as at December 31, 2021). A 1% decrease in interest rates would have had the opposite effect, resulting in a $9.0 million increase in net earnings, representing a 0.4% increase in CRCD's share price ($8.7 million for 0.3% as at December 31, 2021).

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, 2022, Canadian equity funds, valued at $57.7 million (global and Canadian equity funds valued at $163.3 million as at December 31, 2021), 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 $5.8 million increase or decrease in net earnings, representing a 0.2% increase or decrease in CRCD's share price ($16.3 million for 0.6% as at December 31, 2021).

Market-neutral equity funds, valued at $72.5 million as at December 31, 2022 ($164.9 million as at December 31, 2021), 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 $16.1 million ($28.1 million as at December 31, 2021). Accordingly, for these investments, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $1.6 million increase or decrease in net earnings, representing a 0.1% increase or decrease in CRCD's share price ($2.8 million for 0.1% as at December 31, 2021).

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 $115.6 million or 4.5% of net assets as at December 31, 2022, compared with $194.2 million or 7.5% of net assets as at December 31, 2021.

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, 2022, CRCD held a foreign exchange contract under which it will be required to deliver US$80.0 million (US$114.0 million as at December 31, 2021), at the rate of CAD/USD 1.3586 (CAD/USD 1.2849 as at December 31, 2021), as well as a foreign exchange contract under which it will be required to deliver €18.7 million (€15.8 million as at December 31, 2021) at the rate of CAD/EUR 1.4523 (CAD/EUR 1.4555 as at December 31, 2021) on March 31, 2023. As at December 31, 2022, CRCD had $3.8 million in collateral on its foreign exchange contracts (nil as at December 31, 2021).

As at December 31, 2022, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus $19.8 million ($27.2 million as at December 31, 2021). Any fluctuation in the Canadian dollar will therefore not have a significant impact on CRCD's results. However, following the revaluation of assets carried out on December 31, 2022, the exposure to foreign currencies exceeded CRCD's internal guidelines. As a result, an adjustment was made to foreign exchange contracts after December 31, 2022 to reduce net foreign currency exposure to $1.8 million.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $62.6 million ($61.5 million as at December 31, 2021). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all other foreign currencies would have resulted in a $6.3 million increase (decrease) in net earnings, representing a 0.3% increase (decrease) in CRCD's share price ($6.1 million for 0.2% as at December 31, 2021).

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 securities. The risk ratings below are generated and updated based on our portfolio companies' annual financial documents. There is therefore a lag between the current economic reality and the risk ratings.

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 every quarter 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, ranked by risk (fair value amounts):

		As at December 31, 2022		As at December 31, 2021	
Rating		**(in thousands of $)**	**(in %)**	(in thousands of $)	(in %)
1 to 6.5	Low to acceptable risk	**1,742,500**	**89.9**	1,533,608	85.4
7 to 9	At risk	**168,160**	**8.7**	200,248	11.1
10	High risk and insolvent	**27,362**	**1.4**	62,227	3.5

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, 2022		As at December 31, 2021	
Rating		**(in thousands of $)**	**(in %)**	(in thousands of $)	(in %)
1 to 6.5	Low to acceptable risk	**157,251**	**70.8**	164,861	82.8
7 to 9	At risk	**58,778**	**26.4**	28,036	14.1
10	High risk and insolvent	**6,233**	**2.8**	6,233	3.1

For the bonds, which represented 48.8% of the fair value of the Other investments portfolio (43.2% as at December 31, 2021), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

	As at December 31, 2022	As at December 31, 2021
Rating [1]	**(in thousands of $)**	(in thousands of $)
AAA	**131,891**	188,811
AA	**127,225**	114,790
A	**14,946**	14,003

[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, 2022		As at December 31, 2021	
	% of portfolio	**% of net assets**	% of portfolio	% of net assets
Investments impacting the Québec economy [(1)]	**28.0**	**23.7**	27.4	21.1
Other investments [(2)]	**65.5**	**14.4**	59.2	16.7

[(1)] CRCD's interest in the ecosystem funds accounted for 46% (53% as at December 31, 2021) 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 46% and 54% respectively (29% and 71% as at December 31, 2021) 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, 2022, the Investments impacting the Québec economy portfolio represented 76.3% of net assets (69.6% as at December 31, 2021).

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, 2022, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in real estate and infrastructure funds and comprised 89.0% of Canadian securities (91.8% as at December 31, 2021). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2022, the Other investments portfolio represented 22.1% of net assets (29.0% as at December 31, 2021).

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, 2022, bond securities represented 10.7% of net assets (12.2% as at December 31, 2021).

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 target liquid investments that should represent approximately 25% 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, a credit facility has been put in place to provide greater cash management flexibility. To maintain some flexibility for CRCD's current operating financing requirements, an increase in the credit facility from $250 million to $300 million was authorized by CRCD's Board of Directors on August 11, 2022. This credit facility was used in 2022 to bridge the gap between disbursements and disposals of Investments impacting the Québec economy.

Given the significant balance of redeemable shares of CRCD, new 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 has allowed greater availability of capital for Investments impacting the Québec economy by reducing cash requirements related to share redemptions. Since its inception in 2018, this initiative has been well received by shareholders as the authorized amounts have been fully subscribed. See the Subscription section for more information.

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.

5.0 Recent events

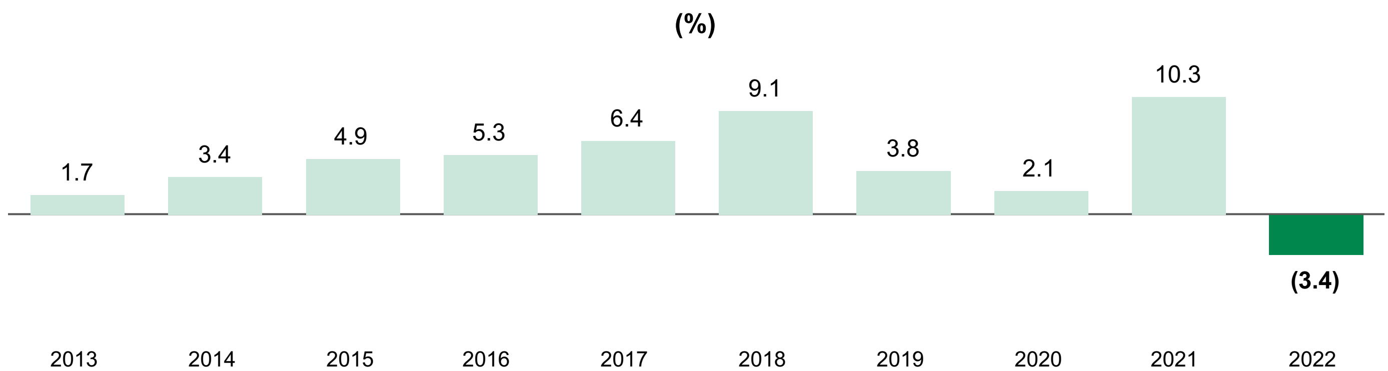
The uncertain economy described in this MD&A could affect performance in CRCD's next six-month periods. CRCD is continuing to actively monitor the situation and the impacts on its operations.

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 earnings (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, 2022

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
4.2%	4.6%	4.2%	2.7%	(3.5)%

7.0 Portfolio summary

7.1 Core investment profiles

As at December 31, 2022, 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	21.6
Equity	41.3
External funds	2.3
Startup and technology innovation	10.7
Other asset items held by ecosystem funds	0.4
Total - Investments impacting the Québec economy	**76.3**
OTHER INVESTMENTS	
Cash and money market instruments	0.3
Bonds	10.7
Canadian equity funds	2.3
Real estate funds	4.9
Infrastructure funds	1.1
Market neutral equity funds	2.8
Total - Other investments	**22.1**

* Including foreign exchange contracts

Net assets are made up of 98.2% investment profiles listed above, net of the bank overdraft, and 1.8% other asset items.

7.2 Main investments held

As at December 31, 2022, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers as at December 31, 2022	% of net assets
Investments impacting the Québec economy – 18 issuers*	42.9
Government of Canada	3.9
Fiera Properties CORE Fund	3.6
CC&L market neutral funds	2.8
Province of Ontario	2.7
Invesco Global Direct Real Estate Feeder Fund	1.3
Canada Housing Trust	1.3
Fidelity Canadian Low Volatility Equity Institutional Trust	1.1

* The 18 issuers which collectively represent 42.9% of CRCD's net assets are:
9388-7628 Québec inc.
Agropur Coopérative
Avjet Holding inc.
Capital croissance PME II s.e.c.
DC Immo 1ère S.E.C.
Desjardins Capital PME s.e.c.
Desjardins – Innovatech S.E.C.
Exo-s-inc.
Fonds Qscale s.e.c.
Fournier Industries Group Inc.
Gestion Jérico inc.
Groupe Solotech inc.
Investissement Groupe Champlain RPA, S.E.C
Marquis Book Printing Inc.
Norbec Group Inc.
SJM Group Inc.
Sollio Cooperative Group
Technic-Eau Drillings Inc.

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

February 16, 2023

8.0 Management's report

February 16, 2023

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 separate 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 separate 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 separate 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 separate 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 separate financial statements.

The separate financial statements present the financial information available as at December 31, 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

Chief Financial Officer