CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

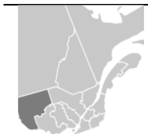
Copies of the interim financial statements may be obtained free of charge, on request, by calling 514-281-2322 or (toll free) 1-866-866-7000, extension 5552322, by writing to 2 Complexe Desjardins, P.O. Box 760, Desjardins Station, Montréal, Québec H5B 1B8, or from our website at www.capitalregional.com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

Interim financial information may be obtained in the same way.

HIGHLIGHTS

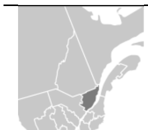
COMMITMENTS THROUGHOUT QUÉBEC

CRCD and its ecosystem[1] make a real contribution to the economic development of the regions. As at December 31, 2017, the funds committed were as follows:

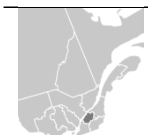


ABITIBI-TÉMISCAMINGUE*
$14M → 28 companies
$1M → 1 cooperative

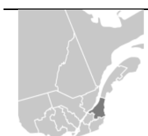
BAS-SAINT-LAURENT*
$11M → 18 companies
$0.2M → 1 cooperative



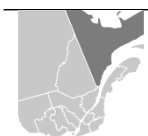
CAPITALE-NATIONALE
$112M → 39 companies
$2M → 1 cooperative



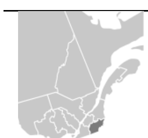
CENTRE-DU-QUÉBEC
$38M → 18 companies
$13M → 2 cooperatives



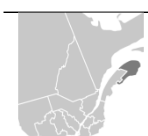
CHAUDIÈRE-APPALACHES
$60M → 32 companies
$3M → 2 cooperatives



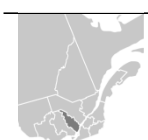
CÔTE-NORD*
$3M → 9 companies



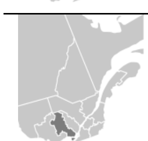
ESTRIE
$77M → 34 companies
$4M → 3 cooperatives



GASPÉSIE – ÎLES-DE-LA-MADELEINE*
$5M → 6 companies

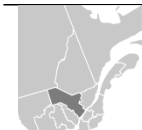


LANAUDIÈRE
$8M → 8 companies
$1M → 1 cooperative

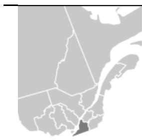


LAURENTIDES
$8M → 5 companies

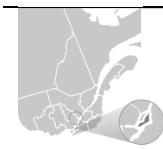
LAVAL
$12M → 9 companies



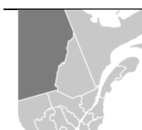
MAURICIE*
$12M → 10 companies
$1M → 1 cooperative



MONTÉRÉGIE
$189M → 54 companies
$83M → 3 cooperatives

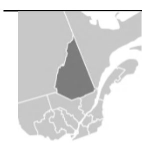


MONTRÉAL
$207M → 71 companies
$87M → 2 cooperatives



NORD-DU-QUÉBEC*
$3M → 16 companies

OUTAOUAIS
$2M → 2 companies



SAGUENAY – LAC-SAINT-JEAN*
$50M → 56 companies
$1M → 1 cooperative

OUTSIDE QUÉBEC
$2M → 4 companies

FUNDS
$66M → 13 funds

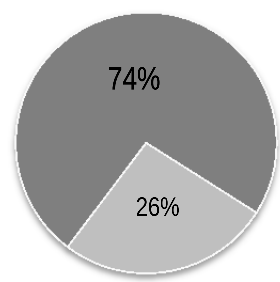
IN TOTAL

450
COMPANIES, COOPERATIVES AND FUNDS

$1,076M
BENEFITTING QUÉBEC SMEs

67,000
JOBS CREATED OR MAINTAINED

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



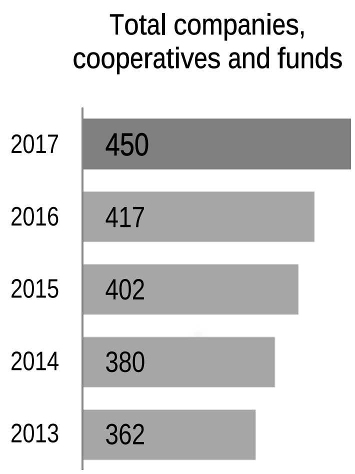
■ Other regions
■ Montréal and the Capitale-Nationale

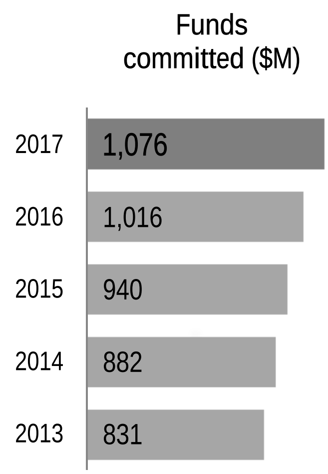
** Resource region*

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

CRCD AND ITS ECOSYSTEM SUPPORT QUÉBEC COMPANIES AND COOPERATIVES

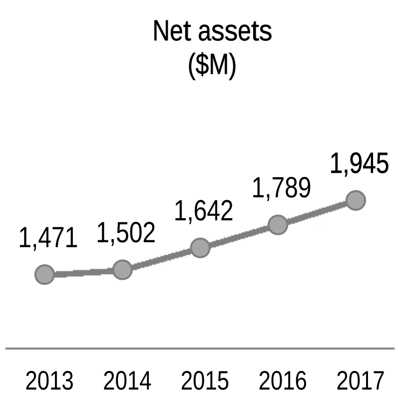
AS AT DECEMBER 31

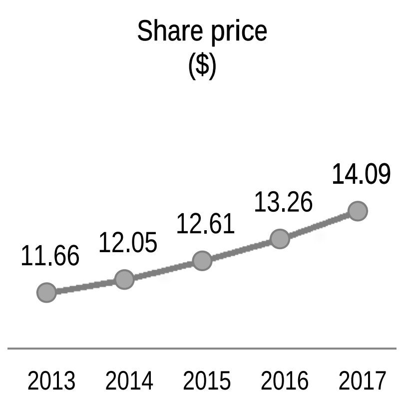


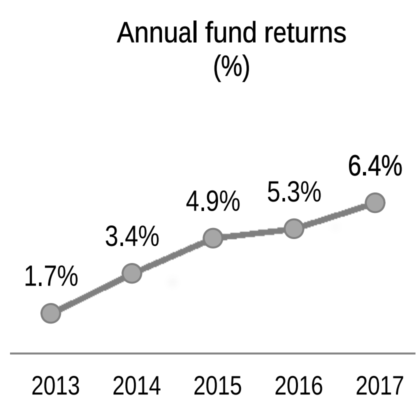


CRCD FINANCIAL DATA

AS AT DECEMBER 31







FINANCIAL HIGHLIGHTS

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

RATIOS AND SUPPLEMENTAL DATA AS AT DECEMBER 31

(in thousands of $, unless indicated otherwise)	2017	2016	2015	2014	2013
Revenue	51,392	44,449	45,269	44,422	51,982
Gains on investments	96,541	78,869	64,035	42,884	10,670
Net earnings	112,757	85,957	74,806	49,245	24,950
Net assets	1,945,342	1,789,417	1,642,076	1,502,462	1,470,576
Common shares outstanding (number, in thousands)	138,080	134,944	130,183	124,665	126,165
Total operating expense ratio[(1)] (%)	1.7	2.0	1.9	2.1	2.0
Total operating expense and common share issue expense ratio[(1)] (%)	1.9	2.2	2.0	2.2	2.2
Portfolio turnover rate:					
– Investments impacting the Québec economy (%)	16	11	19	19	16
– Other investments (%)	87	126	131	102	108
Trading expense ratio[(2)] (%)	0.0	0.0	0.0	0.0	0.0
Number of shareholders (number)	105,614	104,317	102,222	96,236	100,861
Issues of common shares	134,850	133,401	149,882	62,906	149,995
Common share issue expenses, net of related taxes	2,396	1,579	1,750	764	1,739
Redemption of common shares	89,285	70,438	83,324	79,501	59,075
Investments impacting the Québec economy at cost	828,255	787,142	738,596	675,355	671,547
Fair value of investments impacting the Québec economy	1,033,951	921,518	817,199	710,923	733,907
Funds committed but not disbursed	183,606	189,121	171,082	193,764	227,593

(1) Total operating expense ratio is calculated by dividing total expenses (before income taxes) as shown on the separate statements of comprehensive income by average net assets for the fiscal year, pursuant to Section 68 of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure*. The total operating expense and common share issue expense ratio is computed on the same basis but adding the common share issue expenses as shown on the separate statements of changes in net assets to total expenses.

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

CHANGES IN NET ASSETS PER COMMON SHARE AS AT DECEMBER 31

(in $)	2017	2016	2015	2014	2013
Net assets per common share, beginning of year	13.26	12.61	12.05	11.66	11.47
Increase attributable to operations	0.84	0.66	0.59	0.40	0.20
Interest, dividends, distributions and negotiation fees	0.38	0.34	0.35	0.36	0.41
Operating expenses	(0.24)	(0.26)	(0.23)	(0.25)	(0.23)
Income taxes	(0.02)	(0.03)	(0.03)	(0.06)	(0.07)
Realized gains (losses)	0.06	0.18	0.29	0.52	0.03
Unrealized gains (losses)	0.66	0.43	0.21	(0.17)	0.06
Difference attributable to common share issues and redemptions	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)
Net assets per common share, end of year	14.09	13.26	12.61	12.05	11.66

OVERVIEW

CRCD ended fiscal 2017 with net earnings of $112.8 million ($86.0 million in 2016), representing a return of 6.4% (5.3% in 2016), resulting in an increase in net assets per share to $14.09 based on the number of common shares outstanding at the end of the fiscal year, compared with $13.26 at the end of fiscal 2016. CRCD aims to strike an appropriate balance between shareholder return and its mission of Québec economic development. The financial asset management strategy adopted by CRCD several years ago provides the benefits of strong complementarity between the Investments impacting the Québec economy and Other investments portfolios and limits volatility in periods of substantial market turbulence. In fact, CRCD has generated positive returns for the last nine years.

Investments impacting the Québec economy posted a return of 12.7% in 2017, compared with a return of 12.6% in 2016. As at December 31, 2017, the cost of Investments impacting the Québec economy totalled $828.3 million, of which $173.3 million was disbursed during fiscal 2017. As at December 31, 2017, commitments made but not disbursed, which represent investments already agreed upon with companies, cooperatives or funds and that will be disbursed by CRCD at a later date, amounted to $183.6 million. New commitments for the year amounted to $167.7 million.

Other investments generated a return of 4.2% for fiscal 2017, compared with a return of 2.9% for fiscal 2016. During the year, issues of common shares totalled $134.9 million, including the balance of the 2016 issue and substantially all of the maximum authorized amount of $135 million for the 2017 issue. The subscription period for the 2017 issue ends on February 28, 2018. For more information, please see the Subscriptions section of this MD&A. Share redemptions totalled $89.3 million. Net assets amounted to $1,945.3 million. The number of shareholders as at December 31, 2017 was 105,614. As at December 31, 2017, the balance of shares eligible for redemption totalled $827 million.

OUR VISION FOR QUÉBEC ENTREPRENEURSHIP

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

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

GROWING BUSINESSES STRONGER

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

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

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

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

ECONOMIC CONDITIONS

ECONOMIC ENVIRONMENT IN 2017

The global economy grew at an accelerating pace in 2017. The gain in real GDP is estimated at 3.6%, compared with 3.1% in 2016. International trade also gathered momentum. The improved economic environment in 2017 was quite favourable to financial markets. The main North American indexes climbed by more than 15%, and the performance of several exchanges overseas was as impressive. In Canada, following a remarkable performance in 2016, the Toronto Stock Exchange posted mixed results in 2017 as the major sectors related to commodities experienced difficulties in the first half of the year. The year nevertheless ended on a more positive note marked by a rebound in commodity prices, allowing the Toronto Stock Exchange to finish 2017 with a 6% increase. The strength of the economy led the U.S. Federal Reserve (Fed) to announce three 0.25% hikes in its key interest rate and to begin gradually reducing its bond holdings. However, low inflation rates in most countries helped keep long-term bond rates very low. The Bank of Canada (BoC) suddenly began monetary tightening with two 0.25% increases in its key interest rate during the summer, which caused interest rates and the Canadian dollar to surge. Following these hikes, the BoC nevertheless adopted a more cautious tone, which brought the Canadian dollar back down to just under US$0.80.

Once again, the U.S. economy struggled in the first quarter of 2017. However, the following quarters saw rather strong real GDP growth of close to 3.0%. Real GDP growth in 2017 was estimated at 2.3%, a clear improvement over the 1.5% gain recorded for 2016.

The Canadian economy got off to a strong start in 2017 with cumulative real GDP growth of 4.0% (annual rate) in the first half of the year. It was the strongest start of the year since 2002. Domestic demand was particularly vigorous, due in part to sustained growth in consumer spending. It should be noted that several favourable factors helped buoy consumer spending in the first half of 2017. The job market saw solid growth. Household confidence improved in an extremely low interest rate environment. But such strong expansion could not last, and the second half of 2017 was marked by growth that slowed toward a more sustainable level. Several factors contributed to the slowdown. The slight increase in key interest rates that began in July and September 2017 somewhat discouraged consumer spending, in particular for durable goods. The housing market also began to show signs of slowing in certain regions, with the combined effects of a slight increase in interest rates and the introduction of new measures to cool down the Toronto real estate market. Real GDP for 2017 as a whole is ultimately expected to grow at approximately 2.9%. This is a significant improvement from the 1.4% gain in 2016.

The Quebec economy grew much faster in 2017. Real GDP expanded by about 3% for the year, posting the best results in 15 years. The economy got a boost from household spending in consumption and the residential sector. Retail sales experienced strong growth due to improved conditions in the labour market. In December 2017, the monthly unemployment rate even fell to 5.0%, its lowest level in 40 years. This low rate was due to job creation and an aging population, which is driving a significant wave of retirements. Business investment remained weak and export performance disappointed, particularly due to uncertainty surrounding the North American Free Trade Agreement (NAFTA) negotiations.

ECONOMIC OUTLOOK FOR 2018

The favourable outlook for the global economy suggests that bullish stock market trends could continue in 2018. Following their remarkable performance in 2017, foreign stock markets are nevertheless expected to post more modest growth. Commodity prices should still rise somewhat, and the Toronto Stock Exchange is expected to perform well in 2018. The favourable economic performance, combined with a gradual increase in inflation, should lead the Fed and the BoC to gradually raise their key interest rates over the next few quarters. In this environment, the North American bond rates are also expected to trend upwards in 2018, while remaining low in historical terms. Further monetary tightening in Canada and a modest rise in oil prices are expected to result in a slight strengthening in the Canadian dollar.

The global economic growth noted 2017 is poised to continue in 2018, but even more so in emerging markets. In the eurozone, economic growth should stabilize as the economy’s production over-capacity dwindles. The UK economy is expected to slow again as the consequences of Brexit uncertainty continue unabated. Global trade may change in response to the protectionist tendencies of the Trump administration.

In the U.S., the recent momentum in the economy is expected to continue in 2018. Of course, economic conditions will depend on the U.S. president’s actions and benefit from the tax reform bill adopted by Congress at the end of 2017, but vast infrastructure spending programs are not expected. In addition, it is too early to predict whether any trade agreements, such as NAFTA, will be revoked. Confidence remains high enough to ensure solid growth in personal consumption and corporate investment. Key interest rates in the U.S. will continue to rise gradually, with three 25-basis-point increases expected in 2018.

In Canada, economic growth is expected to continue at a satisfactory pace in 2018. On average, real GDP growth could reach 2.2% for the year, outstripping the BoC's 2018 forecast of about 1.4%. Solid job market performance will continue driving consumer spending, with the recovery in non-residential business investment poised to continue. Exports are expected to maintain their upward trend amid vigorous global demand. The benefits of the new trade agreement between Canada and the European Union may also become increasingly apparent. That being said, there is considerable uncertainty over the future of Canadian foreign trade due to the renegotiation of NAFTA. In theory, residential investment should slow in 2018 with the anticipated rise in interest rates and the introduction of a range of restrictions, including new rules from the Office of the Superintendent of Financial Institutions Canada (OSFI) which came into effect in January 2018.

The outlook for Québec in 2018 is favourable, but the economy is expected to grow at a slower pace than last year. Consumer spending is unlikely to grow as fast, since job creation is expected to abate. The Government of Québec, which has generated budget surpluses of $4.6 billion over the past two years, has announced an additional $1.1 billion in personal income tax cuts. Beginning in 2018, the cuts will apply retroactively to January 1, 2017. The provincial government also has sufficient flexibility in its budget to accelerate growth in public spending. The residential sector is expected to lose some steam due to the cumulative effect of interest rate hikes and stricter mortgage rules. The outcome of trade negotiations with the U.S. will play a crucial role in business investment and exports. Québec's real GDP should increase by 2.0% in 2018, but there are downside risks if the talks do not lead to an agreement.

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

OPERATING RESULTS

CRCD'S NET RESULTS AND RETURNS

CRCD posted net earnings of $112.8 million for the year ended December 31, 2017, a 6.4% return, compared with net earnings of $86.0 million (5.3% return) for the previous year. Net assets per share increased to $14.09 based on the number of common shares outstanding at year-end, compared with $13.26 at the end of fiscal 2016. For illustrative purposes, at a price of $14.09 effective February 15, 2018, shareholders who invested seven years earlier would obtain an annual after-tax return of more than 12.8%, taking into account the 50% income tax credit as per the rate applicable on February 15, 2011.

CRCD's performance is driven primarily by Investments impacting the Québec economy and Other investments, which generated returns of 12.7% and 4.2%, respectively, while expenses, net of administrative charges received and income taxes had an impact of 2.2% on CRCD's performance.

CRCD's asset allocation strategy allows it to enjoy a more balanced overall portfolio profile, while actively contributing to Québec's economic development. This should limit the volatility of the CRCD's returns in periods of substantial market turbulence.

RETURN BY ACTIVITY	2017				2016			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy[(1)]	975	52.9	12.7	6.6	872	51.4	12.6	6.4
Other investments and cash	867	47.1	4.2	2.0	825	48.6	2.9	1.4
	1,842	100.0	8.6	8.6	1,697	100.0	7.8	7.8
Expenses, net of administrative charges			(2.0)	(2.0)			(2.3)	(2.3)
Income taxes			(0.2)	(0.2)			(0.2)	(0.2)
CRCD's return			6.4	6.4			5.3	5.3

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

INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of $176.2 million and disposals of $146.8 million were made for a net balance of $29.4 million. Combined with realized and unrealized net gains of $84.6 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to $1,035.2 million as at December 31, 2017 ($921.2 million as at December 31, 2016). The $176.2 million in investments made during the year consisted primarily of an aggregate amount of $87.9 million invested in five companies, as well as $40.3 million in the funds comprising the entrepreneurial ecosystem, as described below.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, which amounted to $183.6 million as at December 31, 2017, compared with $189.1 million as at December 31, 2016. Total commitments at cost as at December 31, 2017 amounted to $1,011.9 million in 91 companies, cooperatives and funds, of which $828.3 million was disbursed. As at December 31, 2017, backed by its entrepreneurial ecosystem, CRCD supported growth in 450 companies, cooperatives and funds.

Notes payable and financial liabilities with a fair value of $23.4 million ($25.2 million as at December 31, 2016) were largely attributable to the November 30, 2010 acquisition of certain investments from Desjardins Venture Capital L.P. Their fair value is adjusted according to changes in the fair value of these investments held by CRCD. During the year ended on December 31, 2017, CRCD repaid $2.2 million in notes and financial liabilities. The fair value of notes and financial liabilities was adjusted upward by $0.4 million, following increases in value of the underlying investments.

During fiscal 2017, Investments impacting the Québec economy generated a contribution of $116.2 million, for a return of 12.7%, compared with $102.6 million in 2016 (a 12.6% return).

CONTRIBUTION GENERATED BY INVESTMENTS IMPACTING THE QUÉBEC ECONOMY (in thousands of $)	2017	2016
Revenue	31,658	26,243
Gains and losses	84,501	76,394
	116,159	102,637

Revenue, consisting of interest, dividends and negotiation fees related to Investments impacting the Québec economy, provides a solid income base that promotes overall portfolio profitability. The $5.4 million increase in revenue between the years stemmed primarily from higher dividends. Negotiation fees, which amounted to $3.5 million for fiscal 2017 ($2.8 million in 2016), 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. This revenue, of which CRCD's share amounted to $13.3 million for fiscal 2017 ($14.3 million in 2016), 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.

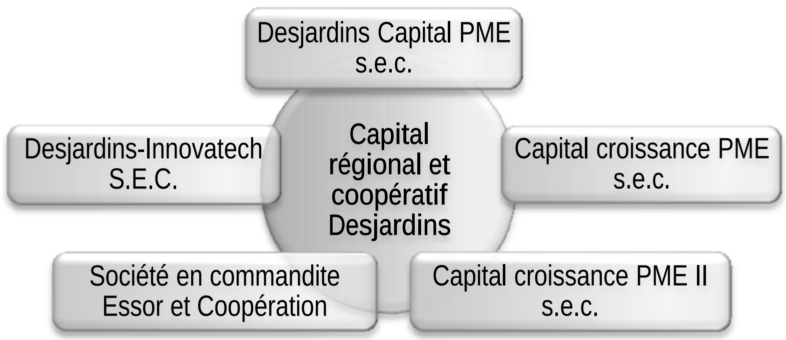
CRCD recorded a realized and unrealized gain of $84.5 million for the fiscal year, compared with $76.4 million for fiscal 2016. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2017, the overall risk level of the Investments impacting the Québec economy portfolio had improved slightly compared with its December 31, 2016 level, as discussed in the Credit and counterparty risk section.

ENTREPRENEURIAL ECOSYSTEM

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

Main funds of the entrepreneurial ecosystem



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

- Capital croissance PME s.e.c. fund (CCPME), created on July 1, 2010, whose main goal is to invest in Québec's small- and medium-sized businesses, primarily in the form of subordinated debt securities for amounts not exceeding $5 million. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the fund, agreed to invest, on a 50/50 basis, a total initial amount of $220 million. The 2014 renewal of this agreement resulted in the creation of Capital croissance PME II s.e.c. fund (CCPME II), enabling an additional $320 million to be committed, increasing the total commitments in the two funds to $540 million. As at December 31, 2017, CRCD had disbursed $236.6 million of its total commitment of $270 million. As CCPME II's investment period closed on November 30, 2017, funds committed but not disbursed will be used for reinvestment and to pay the fund's operating expenses until its scheduled winding up date of November 30, 2023. A total of 294 companies and funds benefited from $268.5 million committed by the CCPME funds as at December 31, 2017. Since their inception, these funds have committed $448.4 million to 375 companies.
- On January 1, 2018, DC created the Desjardins Capital PME s.e.c. fund. (DCPME) in partnership with Desjardins Private Management. The investment policy of this new fund is similar to that of the CCPME funds, which is to make capital available to Québec companies, with an investment limit raised to $10 million per partner company. This sustainable fund is an open-ended limited partnership, allowing the number of limited partners to vary. The limited partners' commitments will be made on an annual basis. For fiscal 2018, the limited partners, consisting of CRCD and the DIM Private Completion Strategy Fund, committed to pay $100 million. As at December 31, 2017, CRCD's commitment amounted to $40 million.
- CRCD is also the sponsor of the Desjardins-Innovatech S.E.C. fund (DI). DI has undertaken to inject a total of $85 million to support Québec technology or innovation businesses through each stage of their development. CRCD's interest in DI is 54.5%. In addition to this interest, CRCD has agreed to make an additional investment in the form of a note for a maximum amount of $5.0 million in DI of which $1.0 million was disbursed in 2017. 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 commercialization. As at December 31, 2017, DI had committed $66.3 million to support a total of 62 companies and funds.
- The objective of the Société en commandite Essor et Coopération (Essor et Coopération), established on January 1, 2013, is to support the creation, growth and capitalization of cooperatives in Québec. CRCD and other partners, including three from the cooperative sector, have made commitments totalling $89.9 million. CRCD has a 94.6% interest in the Essor et Coopération fund. Since the fund's inception, CRCD has disbursed $29.7 million of its total commitment of $85 million. As at December 31, 2017, Essor et Coopération had committed $29.7 million in 15 cooperatives.

In all, as at December 31, 2017, CRCD and its ecosystem supported the growth of 450 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $1,076 million, while helping to create and retain over 67,000 jobs. Of that total, 18 cooperatives benefited from commitments of $196.1 million by CRCD and its ecosystem.

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

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

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

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

Entrepreneurial ecosystem performance

RETURN BY INVESTMENT PROFILE	2017				2016			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	288	15.6	5.6	0.9	276	16.3	9.4	1.6
Equity	593	32.2	19.5	5.9	486	28.6	15.9	4.2
External funds	53	2.9	(22.7)	(0.9)	66	3.9	11.9	0.5
Venture capital	32	1.7	43.6	0.7	26	1.5	4.3	0.1
Investment profiles subtotal	966	52.4	12.9	6.6	854	50.3	13.0	6.4
Other asset items held by ecosystem funds	9	0.5	(0.2)	(0.0)	18	1.1	(0.5)	0.0
Ecosystem total	975	52.9	12.7	6.6	872	51.4	12.6	6.4

The entrepreneurial ecosystem's sound performance stems from the Equity investment profile, which posted a return of 19.5%. This gain is mainly attributable to the higher profitability of several portfolio companies, and given the large amount of assets allocated to this profile, it made a major contribution to the ecosystem's return of 12.7% in 2017. The Debt investment profile posted a lower return compared with the same period in 2016, mainly due to changes in value caused by the increase in market rates in 2017. The respective returns of the External funds and Venture capital investment profiles were primarily influenced by the values of two specific securities. Due to their volume, 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 liquidities to meet liquidity needs arising from redemption requests from shareholders and Investments impacting the Québec economy it expects to make. This portfolio, consisting primarily of liquid assets, includes fixed-income securities, global equity funds, Canadian equity funds and real estate funds. This portfolio provides stable current revenue for CRCD and ensures sound diversification.

As at December 31, 2017, CRCD's Other investments portfolio, including cash but excluding foreign exchange contracts, totalled $889.3 million ($844.6 million as at December 31, 2016) and consisted of the following:

Other investments portfolio	As at December 31, 2017		As at December 31, 2016	
	Fair value ($M)	% of portfolio	Fair value ($M)	% of portfolio
Cash and money market instruments	46.2	5.2	35.2	4.2
Bonds	506.2	56.9	580.3	68.7
Global equity funds	155.0	17.4	105.1	12.4
Canadian equity funds	93.1	10.5	-	-
Real estate funds	88.8	10.0	64.1	7.6
Preferred shares	-	-	59.9	7.1
Portfolio total	889.3	100.0	844.6	100.0

As at December 31, 2017, 72% of portfolio bond securities were government guaranteed (68% as at December 31, 2016).

The Other investments portfolio accounted for 46% of total net assets as at the end of fiscal 2017 (47% as at December 31, 2016). Commitments already made but not disbursed of $183.6 million, representing 9% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

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

CONTRIBUTION GENERATED BY OTHER INVESTMENTS (in thousands of $)	2017	2016
Revenue	22,753	20,489
Gains and losses	12,040	2,475
	34,793	22,964

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

Other investments contributed a total of $34.8 million for fiscal 2017 compared with a contribution of $23.0 million a year earlier. Current revenue was up slightly from fiscal 2016.

For fiscal 2017, CRCD recorded a gain of $12.0 million on its Other investments portfolio. The global equity fund portfolio gained $8.4 million in a strongly rising market, while the Canadian equity fund generated a gain of $3.9 million amid favourable economic conditions. Given the less attractive future outlook for the preferred share asset class, the transfer of this portfolio to the low volatility Canadian equity fund was completed in 2017.

The bond portfolio posted a loss of $3.3 million, mainly due to a 75-basis-point increase in the key interest rate since December 2016.

Over the last few years, the fair value of the bond portfolio benefited from repeated interest rate decreases. The current rise in rates had a negative impact on unrealized changes in value during the past year. 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 not unrelated to bond markets. Moreover, CRCD aims to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of bond rates on CRCD's results.

CAPITAL RAISING

CRCD offers its common shares for subscription exclusively through the Desjardins caisse network in Québec.

On February 28, 2014, CRCD reached its capitalization limit. Despite the provisions of its constituting act, the Minister of Finance of Québec in his Budget Speech of March 17, 2016, authorized CRCD exceptionally to raise a maximum amount of $135 million for each of the capitalization periods from March 1, 2016 to February 28, 2017 and from March 1, 2017 to February 28, 2018. The provincial tax credit granted by the Québec government for purchasing shares was set at 40%.

To allow as many shareholders as possible to buy CRCD shares, the maximum annual amount allowable was capped at $3,000 per investor, for a tax credit of $1,200.

This tax credit was 45% for shares purchased from March 1, 2014 to February 29, 2016, inclusively, and 50% for shares purchased from November 10, 2007 to February 28, 2014, inclusively, and before March 24, 2006, and 35% for shares purchased from March 24, 2006 to November 9, 2007, inclusively.

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

Each 12-month capitalization period begins on March 1 of each year. A special tax is payable by CRCD if it fails to comply with the authorized issuance amounts, and control mechanisms have been implemented by CRCD to ensure compliance. No special tax was paid for fiscal 2017 and 2016.

As at December 31, 2017, CRCD had $1,501.6 million in share capital for 138,079,685 common shares outstanding.

During the year, CRCD raised $134.9 million, including the balance of $1.5 million from the 2016 issue and substantially all of the maximum authorized amount of $135 million for the 2017 issue. The $1.7 million authorized balance of the 2017 authorized issue has already been pre-subscribed by investors selected under the established process and the corresponding shares will be issued no later than February 28, 2018.

With respect to issue expenses, an agreement was entered into for the period from March 1, 2017 to February 28, 2018 between CRCD and the Fédération des caisses Desjardins du Québec to compensate the caisses in an amount of $2.90 per $100 of shares sold ($1.90 for the 2016 issue). This increase in issue expenses is intended to better reflect the operational costs borne by the caisses in connection with the issuance of CRCD shares. In return, DC agreed to reduce management fees to a maximum of 1.95% of assets under management (2.02% in 2016).

For fiscal 2017, redemptions of common shares totalled $89.3 million ($70.4 million in 2016).

As at December 31, 2017, the balance of shares eligible for redemption amounted to nearly $827 million. During 2018, additional shares with an approximate value of $215 million will also become eligible for redemption, bringing potential redemptions to around $1,042 million for fiscal 2018. CRCD feels that the current economic conditions and low interest rates in particular are behind the low volume of redemptions in the last few years.

Subscriptions and redemptions for fiscal 2017 increased the number of shareholders to 105,614 as at December 31, 2017 from 104,317 as at December 31, 2016.

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

EXPENSES AND INCOME TAXES

EXPENSES (in thousands of $)	2017	2016
Management fees	23,865	27,293
Other operating expenses	5,647	4,989
Shareholder services	2,762	2,144
	32,274	34,426

CRCD has entrusted DC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The current management agreement expires on December 31, 2017. A new three-year management agreement will take effect on January 1, 2018. Under these agreements, management fees are equal to a maximum rate of 1.95% (2.02% for the year ended December 31, 2016) of the average annual value of CRCD's assets, net of any liabilities related to Investments impacting the Québec economy and other investments. An adjustment is made to the management fees charged to CRCD to avoid double billing relative to CRCD's interest in some funds. DC and CRCD have agreed that, for a given fiscal year, an adjustment could also be made to allow CRCD to benefit from economies of scale realized by DC in relation to the growth in CRCD's assets as well as the increase in the balance of CRCD shares eligible for redemption in recent years. For the year ended December 31, 2017, such a downward adjustment of $6.6 million

($1.7 million for the year ended December 31, 2016) was made. The management and trading fees from the portfolio companies are earned by DC, and the management fees CRCD is required to pay are reduced by an equivalent amount.

The $0.7 million increase in other operating expenses resulted primarily from investments in information technology required to maintain and avoid the obsolescence of certain platforms essential to CRCD's operations.

The $0.6 million increase in shareholder services was mainly driven by the change in the dates on which semi-annual statements are sent to shareholders and higher trustee fees related to the increase in the number of active accounts.

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

CRCD has appointed the Fédération des caisses Desjardins du Québec (FCDQ) to distribute its shares through the Desjardins caisse network. CRCD has further agreed to pay project fees, as needed, to cover work required to upgrade the tools and applications supporting the CRCD share distribution processes. For the year ended December 31, 2017, CRCD paid fees in the amount of $0.8 million for these services. This agreement is effective from July 1, 2016 to December 31, 2020. The revised fee structure came into effect on January 1, 2017.

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

LIQUIDITY AND CAPITAL RESOURCES

For fiscal 2017, cash inflows from issues net of redemptions amounted to $43.0 million (cash inflows of $63.0 million in 2016). Operating activities generated net cash outflows of $32.6 million ($76.4 million in 2016).

Cash outflows for Investments impacting the Québec economy amounted to $173.3 million for fiscal 2017 ($117.5 million in 2016). Net cash outflows for the Other investments portfolio totalled $16.3 million for fiscal 2017 ($46.3 million for fiscal 2016).

As at December 31, 2017, cash and cash equivalents totalled $29.4 million ($19.1 million as at December 31, 2016).

CRCD had an authorized line of credit of $50 million as at December 31, 2017. In the event that liquidity needs exceed expectations, this line of credit could be used on a temporary basis to cover CRCD's obligations. This additional flexibility optimizes the level of liquid assets held and reduces the risk of having to dispose of assets hastily under potentially less advantageous conditions. The line of credit was undrawn during fiscal 2017 and fiscal 2016.

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

CRCD'S VISION, MISSION, STRATEGIC PRIORITIES AND STRATEGIES

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

MISSION

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

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

CRCD'S VISION AND STRATEGIC PRIORITIES

Strategic planning work was carried out throughout 2016. The work involved consulting with our wide range of stakeholders, and included taking the pulse of shareholders and partner entrepreneurs as well as a number of meetings between CRCD's Board of Directors and DC's Management Committee. This approach allowed us to update CRCD's vision, identify issues as well as opportunities to be grasped and set our strategic priorities for the next three years. The new 2017–2019 strategic plan, in continuation of the 2013–2016 strategic plan, was approved by CRCD's Board of Directors in late fiscal 2016.

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

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

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

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

STRATEGIES

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

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

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

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

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

Lastly, CRCD is required to fulfil its mission within certain guidelines, including investing 62% of its average net assets in eligible Québec companies. This percentage is gradually increased by 1% per year to reach 65% for the fiscal years beginning after December 31, 2019. In addition, 35% of eligible investments must be made in Québec's resource regions or in eligible cooperatives. If these requirements are not met, the authorized issue of capital for the capitalization period following the end of the fiscal year could be reduced. As at December 31, 2017 and 2016, all of those rules were met.

GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors (the "Board") is made up of 13 directors, 11 of whom are independent, and is chaired by an independent director. The following is a snapshot of the Board as of the date of this report:

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

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

André Gabias,
Lawyer
Secretary of the Board of CRCD and Ethics and Governance Consultant

Bruno Morin
General Manager of CRCD and Corporate Director

Charles Auger,
BBA Finance
Vice-President of Operations, Chocolats Favoris

Eve-Lyne Biron,
B.Sc., MBA, ICD.D
Corporate Director

Roger Demers,
FCPA, FCA, ASC
Corporate Director

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

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

Jacques Jobin,
Lawyer, ASC
President, Médiato

Jean-Claude Loranger
General Manager, Caisse Desjardins de Rouyn-Noranda

Marcel Ostiguy
Corporate Director

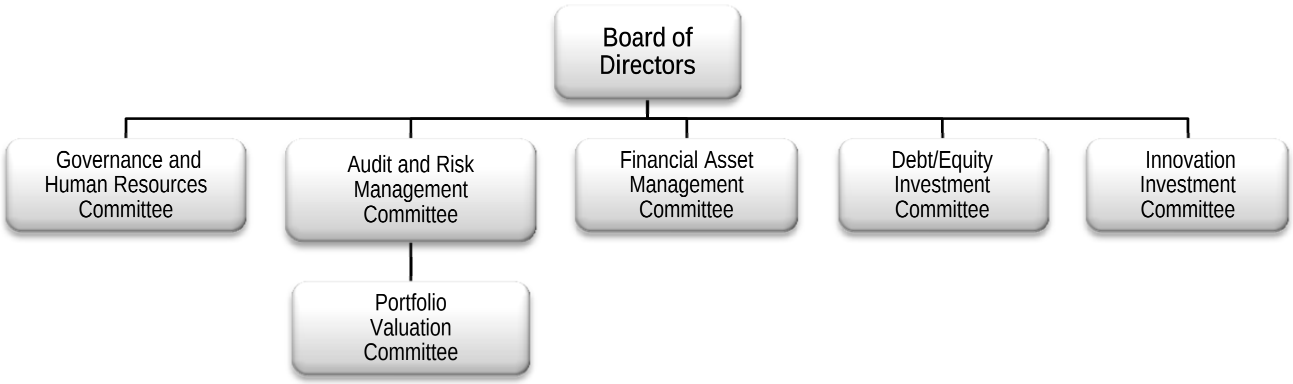
Louis-Régis Tremblay,
Eng., ICD.D
Executive Management Consultant and Corporate Director

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

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

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

The governance structure is as follows:



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

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

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

This Committee's mandate is to provide oversight of the application of the rules relating to governance, independence, conflicts of interest, ethics and professional conduct. It is in particular responsible for drawing up skills and experience profiles for the General Manager and Board members. It also recommends to the Board an evaluation process for the performance of the Chair of the Board, the General Manager of CRCD, the Board, the Committees and CRCD's manager.

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

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee consists of four independent directors who have the financial literacy required to carry out their duties, two of whom have an accounting designation.

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

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

FINANCIAL ASSET MANAGEMENT COMMITTEE

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

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

The Committee also monitors market risks related to interest rates, foreign currencies and stock markets, geographic and sector concentration risk related to net assets, liquidity risk, and outsourcing risk relating to the use of external managers. It is informed of the sector concentration risk of 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 Evaluation Committee is made up of five members: two independent directors and three external members. The majority of members are independent qualified valuators in accordance with the *Regulation respecting development capital investment fund continuous disclosure*.

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

INVESTMENT COMMITTEES

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

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

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

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

ATTENDANCE RECORD AND COMPENSATION

The following table presents the attendance record and compensation of CRCD's directors and external committee members for fiscal 2017.

Name	Board of Directors	Governance and Human Resources Committee	Audit and Risk Management Committee	Financial Asset Management Committee	Governance and Ethics Committee (abolished)	Portfolio Valuation Committee	Subordinated Debt Investment Committee (abolished)	Equity Investment Committee (abolished)	Debt/Equity Investment Committee	Innovation Investment Committee	Compensation
(Number of meetings)	11	7	5	4	7	3	14	11	5	11	$
Charles Auger	9/9									8/8	22,985
Chantal Bélanger	11/11	7/7	5/5			3/3					46,300
Ève-Lyne Biron	11/11				7/7		12/14				31,900
Joane Demers	2/2		1/1								5,100
Roger Demers	11/11	2/2		4/4				11/11	4/5		41,675
Marlène Deveaux	11/11	7/7	5/5				14/14		5/5		46,775
Maurice Doyon	2/2	1/1		1/1						2/2	9,625
André Gabias	11/11				6/7						29,275
Jean-Claude Gagnon	9/9		4/4			1/2					22,870
Jacques Jobin	11/11	5/5		3/3	6/6					11/11	42,416
Sylvie Lalande	9/9	6/6									32,101
Jean-Claude Loranger	11/11			4/4				8/11			31,500
Bruno Morin	11/11	7/7		4/4				4/4	5/5		70,000
Marcel Ostiguy	9/9			3/3	1/1						19,685
Jacques Plante	2/2	1/1		1/1		1/1					13,550
Claudine Roy	2/2			1/1							5,100
Louis-Régis Tremblay	11/11		5/5					11/11	5/5		36,800
Bernard Bolduc *								11/11	4/5		15,800
Marie-Claude Boulanger *							13/14				11,500
Évangéliste Bourdages *							10/14				10,400
Guy Delisle *							12/14		5/5		16,200
Michel Duchesne *							13/14				12,150
Marie-Claude Gévry *								9/11			9,800
Sébastien Mailhot *						3/3					7,600
Michel Martineau *						3/3					7,600
Lynn McDonald *								11/11			11,150
Muriel McGrath *										11/11	12,600
George Rossi *						3/3					7,600
Michel Rouleau *							13/14		5/5		17,050
Thom Skinner *										11/11	13,050
Normand Tremblay *										11/11	12,600
TOTAL COMPENSATION											672,757

* External committee member

Explanatory notes to table

Compensation includes retainers and fees paid to directors for attending Board and committee meetings, training sessions and special committee working meetings. Mr. Morin, General Manager, receives a fixed salary of $70,000 per year.

The Executive Committee was abolished on February 16, 2017, and its responsibilities were distributed to the Corporate Governance Committee and other Board committees. The Corporate Governance Committee was created on April 21, 2017 and renamed the Corporate Governance and Human Resources Committee on July 6, 2017. The Audit Committee was renamed Audit and Risk Management Committee on November 17, 2017. The Governance and Ethics Committee was renamed the Ethics and Professional Conduct Committee on April 21, 2017 and abolished on August 17, 2017. The Subordinated Debt Investment Committee and Equity Investment Committee merged on September 30, 2017.

Ms. Lalande, Mr. Auger, Mr. Gagnon and Mr. Ostiguy have served as directors since March 24, 2017, replacing Ms. Demers, Ms. Roy, Mr. Doyon and Mr. Plante. Furthermore, Mr. Gagnon has been a member of the Audit and Risk Management Committee since April 21, 2017. Mr. Jobin and Mr. Ostiguy have served as members of the Financial Asset Management Committee since April 21, 2017. Mr. Jobin ceased to serve as a member of the Ethics and Professional Conduct Committee on April 21, 2017. Mr. Ostiguy served as a member of the Ethics and Professional Conduct Committee from April 21, 2017 to August 17, 2017. Mr. Gagnon has been a member of the Portfolio Valuation Committee since April 21, 2017. Mr. Morin served as a member of the Equity Investment Committee until April 21, 2017. Mr. Auger has been a member of the Innovation Investment Committee since April 21, 2017.

RISK MANAGEMENT

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

Note to the reader

The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been reviewed by CRCD's independent auditor as part of the audit of the separate financial statements concerning which an independent auditor's report was issued on February 15, 2018.

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, 2017 was $813.3 million ($899.7 million as at December 31, 2016). 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 $33.9 million ($22.2 million as at December 31, 2016) are not valued based on changes in interest rates, given their very short maturities and CRCD's intention to hold them until maturity.

Bonds with a fair value of $506.2 million ($580.3 million as at December 31, 2016) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a decrease of $28.0 million in net earnings, representing a 1.5% decrease in CRCD's share price as at December 31, 2017 ($33.1 million for 1.9% as at December 31, 2016). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $29.8 million increase in net earnings, representing a 1.6% increase in share price ($35.3 million for 2.1% as at December 31, 2016). CRCD's financial asset management strategy aims to diversify the portfolio securities which will lead to a reduced 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 $88.8 million ($64.1 million as at December 31, 2016) and preferred shares that were disposed of in fiscal 2017 (fair value of $59.9 million as at December 31, 2016) may also be affected by changes in interest rates. 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 $212.1 million ($153.3 million as at December 31, 2016), 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 $184.3 million ($173.2 million as at December 31, 2016), are sensitive to changes in interest rates. However, the interest rate risk related to the other loans and advances and preferred shares held in the portfolio is limited given the amounts in question.

Stock market risk

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

As at December 31, 2017, global and Canadian equity funds, valued at $248.1 million ($105.1 million as at December 31, 2016), which were managed by external managers and held in the Other investments portfolio, consisted primarily of listed equities. Accordingly, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $24.8 million increase or decrease in net earnings, representing a 1.3% increase or decrease in CRCD's share price.

The Investments impacting the Québec economy portfolio included listed equities in the amount of $0.3 million ($0.6 million as at December 31, 2016). As a result, for these investments, any stock market fluctuations would not have had a significant direct impact on CRCD's net earnings.

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 $91.0 million or 4.7% of net assets as at December 31, 2017, compared with $111.1 million or 6.2% of net assets at December 31, 2016.

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 $5 million line of credit has been granted to CRCD for its foreign exchange contract transactions. As at December 31, 2017, CRCD held foreign exchange contracts under which it will be required to deliver US$76.1 million (US$82.3 million as at December 31, 2016) at the rate of CAD/USD 1.2747 (CAD/USD 1.3360 as at December 31, 2016) on March 29, 2018.

As at December 31, 2017, the net exposure of CRCD's Investments impacting the Québec economy portfolio to foreign currencies was thus limited to $4.7 million ($1.2 million as at December 31, 2016). Any fluctuation in the Canadian dollar will therefore not have a significant impact on CRCD's results.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $140.0 million. Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a $14.0 million increase (decrease) in net earnings, representing a 0.7% increase (decrease) in CRCD's share price.

CREDIT AND COUNTERPARTY RISKS

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

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

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

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

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

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

		As at December 31, 2017		As at December 31, 2016	
Rating		(in thousands of $)	(as a %)	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	1,013,033	98.0	894,154	97.0
7 to 9	At risk	15,267	1.5	20,161	2.2
10	High risk and insolvent	5,651	0.5	7,203	0.8

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

		As at December 31, 2017		As at December 31, 2016	
Rating		(in thousands of $)	(as a %)	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	183,606	100.0	188,721	99.8
7 to 9	At risk	-	-	400	0.2

For the bond portfolio, which represented 57.6% of the fair value of the Other investments portfolio (69.8% as at December 31, 2016), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

	As at December 31, 2017	As at December 31, 2016
Rating	(in thousands of $)	(in thousands of $)
AAA	224,582	269,452
AA	186,001	194,174
A	47,175	55,695
BBB	45,585	57,966
BB	2,841	3,049

Credit risk ratings are established by recognized credit agencies.

Consistent with the global financial asset management policy, preferred shares and money market instruments have respective minimum credit ratings of Pfd-2 (low), and A-2 or R-1 (low). Such high credit ratings limit the credit risk associated with these financial instruments.

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

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

CONCENTRATION RISKS

Concentration risks arise from the possibility that a significant portion of CRCD's Investments impacting the Québec economy portfolio or Other investments portfolio might become concentrated in a single entity, 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):

	As at December 31, 2017		As at December 31, 2016	
	% of portfolio	% of net assets	% of portfolio	% of net assets
Investments impacting the Québec economy[(1)]	35.5	22.2	38.0	23.6
Other investments[(2)]	46.8	21.1	44.5	20.7

(1) CRCD's interest in the ecosystem funds accounted for 63% (55% as at December 31, 2016) of the five largest Investments impacting the Québec economy.

(2) Government issuers and issues guaranteed by government entities represented 62% (86% as at December 31, 2016) 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, 2017, the Investments impacting the Québec economy portfolio represented 52.8% of net assets (51.6% as at December 31, 2016).

CRCD has adopted a global financial asset management and investment guidelines policy to govern the Other investments portfolio activities which currently limit the option of holding foreign securities. As at December 31, 2017, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in global equity funds, plus 84.3% in Canadian securities (88.7% as at December 31, 2016). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2017, the Other investments portfolio represented 45.8% of net assets (47.2% as at December 31, 2016).

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, 2017, bond securities represented 26.0% of net assets (32.4% as at December 31, 2016). The lower percentage allocated to this asset class stems from the increase in the weighting for Investments impacting the Québec economy and aims to diversify the portfolio by adding new asset classes, strike an overall balance for the portfolio between risk and return and meet CRCD's cash requirements.

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

LIQUIDITY RISKS

CRCD must maintain sufficient liquid assets to fund share redemptions and committed Investments impacting the Québec economy. If it failed to do so, CRCD would be dependent on the markets and could be forced to carry out transactions under unfavourable conditions. With liquid investments that should represent approximately 30% of assets under management, and using a management approach that ensures that the average maturity of bonds is close to the average maturity of expected outflows, CRCD can confirm that liquidity risks are adequately covered. Furthermore, credit facilities have been put in place to provide greater cash management flexibility. The credit facilities were undrawn during fiscal 2017 and 2016.

This work takes into account the expected higher balance of redeemable shares of CRCD. Initiatives have been implemented to encourage the redemption of shares and a $50 million increase in the line of credit has been granted, since 2016.

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

RECENT EVENTS

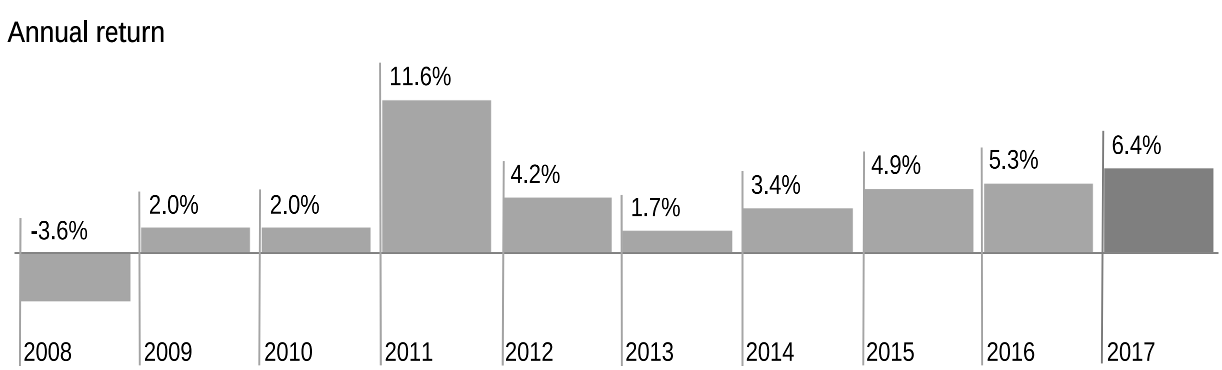
Following the 2016-2017 budget speech, the Québec government announced changes to CRCD's governance pertaining to the composition of its Board of Directors and the concept of independence. The proposed legislative amendments must be adopted by the National Assembly and will be implemented gradually.

PAST PERFORMANCE

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

ANNUAL RETURNS

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



COMPOUNDED RETURN OF THE COMMON SHARE AS AT DECEMBER 31, 2017

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

10 YEARS	7 YEARS	5 YEARS	3 YEARS	1 YEAR
3.6%	5.2%	4.2%	5.3%	6.3%

PORTFOLIO SUMMARY

CORE INVESTMENT PROFILES

As at December 31, 2017, the assets of CRCD's Investments impacting the Québec economy and Other investments portfolios at fair value were as follows:

Investment profile	% of net assets
Investments impacting the Québec economy*	
Debt	15.5
Equity	33.3
External funds	2.0
Venture capital	1.8
Other asset items held by ecosystem funds	0.2
Total – Investments impacting the Québec economy	52.8
Other investments	
Cash and money market instruments	2.4
Bonds	26.0
Global equity funds	8.0
Canadian equity funds	4.8
Real estate funds	4.6
Total – Other investments	45.8

* Including foreign exchange contracts

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

MAIN INVESTMENTS HELD

As at December 31, 2017, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers	% of net assets
Investments impacting the Québec economy (14 issuers)*	33.8
Government of Canada	5.2
Hydro-Québec	4.1
Desjardins IBrix Low Volatility Global Equity Fund	4.1
Desjardins Global Dividend Fund	3.9
LNH Merrill Lynch Canada	3.8
BMO Low Volatility Canadian Equity ETF	2.4
Fidelity Canadian Low Volatility Equity Institutional Trust	2.4
Bentall Kennedy Prime Canadian Property Fund	2.3
Fiera Properties CORE Fund	2.3
Province of Ontario	2.3
Canada Housing Trust	2.0

* The 14 issuers who collectively represent 33.8% of CRCD's net assets are:

- ACCEO Solutions Inc.
- Agropur Cooperative
- Atis Group Inc.
- Avjet Holding Inc.
- Camso Inc.
- Capital croissance PME s.e.c.
- Capital croissance PME II s.e.c.
- Congebec Logistic Inc.
- Desjardins-Innovatech S.E.C
- Exo-s Inc.
- Fournier Industries Group Inc.
- La Coop fédérée
- Société en commandite Essor et Coopération
- Télécon Inc.

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

February 15, 2018

MANAGEMENT'S REPORT

February 15, 2018

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

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

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

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

The financial statements present the financial information available as at February 15, 2018. These statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and audited by PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

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