# Management discussion and analysis

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

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

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

Copies of the 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.

Annual financial information may be obtained in the same way.

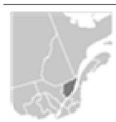
# 1.0 Highlights

## 1.1 Commitments throughout Québec

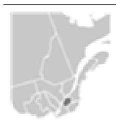
CRCD and its ecosystem[1] make a real contribution to the economic development of the regions. As at June 30, 2022, the funds committed per region were as follows:

**ABITIBI-TÉMISCAMINGUE***
**$31M** → **36** companies
**$0.7M** → **1** cooperative

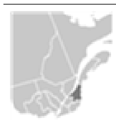
**BAS-SAINT-LAURENT***
**$72M** → **40** companies
**$0.2M** → **1** cooperative



**CAPITALE-NATIONALE**
**$163M** → **76** companies
**$9M** → **6** cooperatives

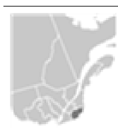


**CENTRE-DU-QUÉBEC**
**$49M** → **23** companies
**$10M** → **3** cooperatives



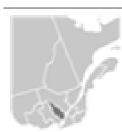
**CHAUDIÈRE-APPALACHES**
**$260M** → **73** companies
**$1M** → **4** cooperatives

**CÔTE-NORD***
**$8M** → **10** companies

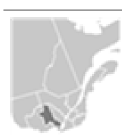


**ESTRIE**
**$236M** → **63** companies
**$8M** → **3** cooperatives

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



**LANAUDIÈRE**
**$37M** → **21** companies
**$5M** → **2** cooperatives



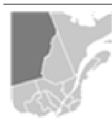
**LAURENTIANS**
**$19M** → **11** companies

**LAVAL**
**$106M** → **18** companies

**MAURICIE***
**$25M** → **14** companies
**$0.5M** → **1** cooperative

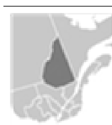
**MONTÉRÉGIE**
**$289M** → **74** companies
**$39M** → **2** cooperatives

**MONTRÉAL**
**$477M** → **110** companies
**$101M** → **4** cooperatives



**NORD-DU-QUÉBEC***
**$6M** → **20** companies

**OUTAOUAIS**
**$12M** → **14** companies



**SAGUENAY–LAC-SAINT-JEAN***
**$79M** → **70** companies
**$1M** → **5** cooperatives

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

**EUROPE**
**$18M** → **9** companies

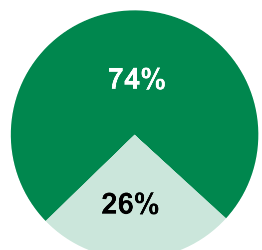
**FUNDS**
**$90M** → **19** funds

**IN TOTAL**

**750**
**COMPANIES, COOPERATIVES AND FUNDS**

**$2,181M**
**BENEFITING SMEs**

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

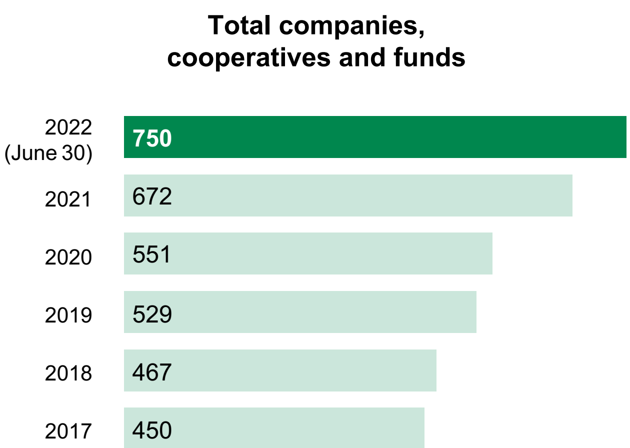


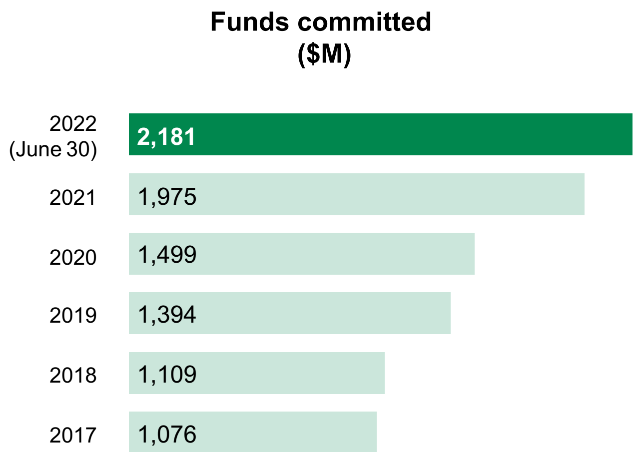

Other regions
Montréal and Capitale-Nationale

** 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

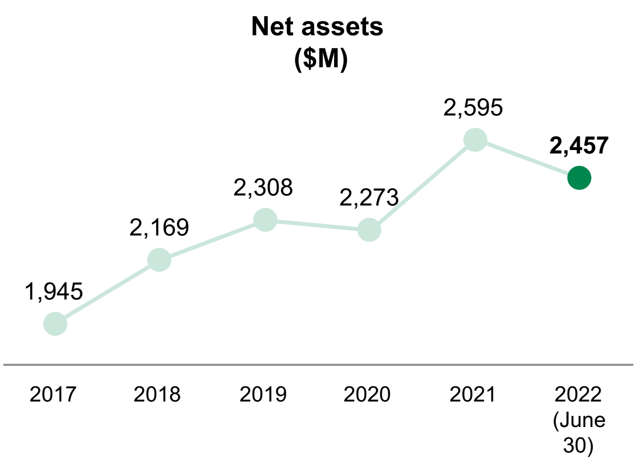
**AS AT JUNE 30, 2022 AND DECEMBER 31**

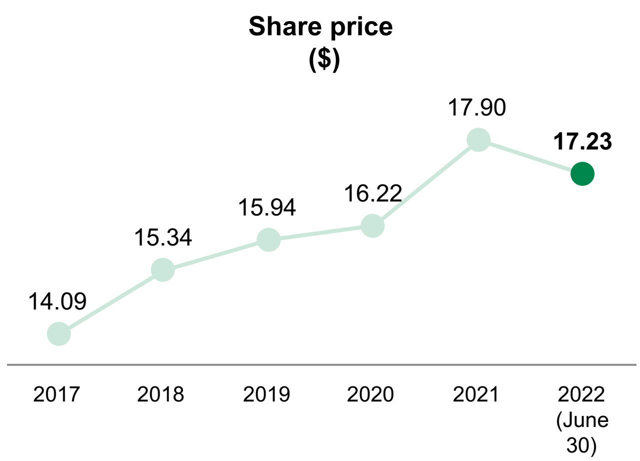


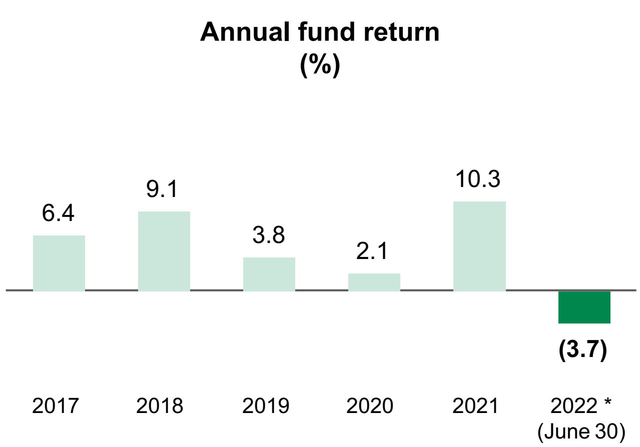




### 1.3 CRCD financial data

**AS AT JUNE 30, 2022 AND DECEMBER 31**




*Non-annualized return for the six-month period ended June 30, 2022.

# 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 and for the six month period ended June 30, 2022. This information is derived from CRCD's separate audited interim and annual financial statements.

## 2.1 Ratios and supplemental data

| (in thousands of $, unless indicated otherwise) | **June 30, 2022 (6 months)** | **Dec. 31, 2021** | **Dec. 31, 2020** | **Dec. 31, 2019** | **Dec. 31, 2018** | **Dec. 31, 2017** |
|---|---|---|---|---|---|---|
| Revenue | **31,837** | 67,951 | 48,233 | 55,210 | 70,285 | 51,392 |
| Gains (losses) on investments | **(104,000)** | 212,275 | 38,471 | 63,703 | 138,632 | 96,541 |
| Net earnings (loss) | **(95,805)** | 234,476 | 46,429 | 81,302 | 174,894 | 112,757 |
| Net assets | **2,457,075** | 2,594,703 | 2,272,798 | 2,308,466 | 2,168,804 | 1,945,342 |
| Common shares outstanding (number, in thousands) | **142,614** | 144,959 | 140,110 | 144,849 | 141,391 | 138,080 |
| Total operating expense ratio and common share issue expense ratio [1] (%) | **2.1** | 1.8 | 1.8 | 1.6 | 1.6 | 1.9 |
| Portfolio turnover rate: | | | | | | |
| – Investments impacting the Québec economy (%) | **3** | 15 | 13 | 10 | 17 | 16 |
| – Other investments (%) | **64** | 111 | 100 | 101 | 163 | 87 |
| Trading expense ratio [2] (%) | **—** | — | — | — | — | — |
| Number of shareholders (number) | **111,446** | 113,039 | 109,286 | 109,364 | 107,862 | 105,614 |
| Issues of common shares – Class A "Issuance" | **189** | 140,155 | 139,842 | 140,017 | 141,179 | 134,850 |
| Exchanges of common shares – Class B "Exchange" | **49,905** | 99,855 | (92) | 199,445 | — | — |
| Common share issue expenses, net of related taxes | **—** | — | — | — | 2,523 | 2,396 |
| Redemptions of common shares | **42,012** | 52,726 | 221,939 | 81,657 | 90,088 | 89,285 |
| Investments impacting the Québec economy at cost | **1,588,578** | 1,440,623 | 1,108,055 | 1,014,864 | 838,258 | 828,255 |
| Fair value of investments impacting the Québec economy | **1,916,307** | 1,796,083 | 1,298,331 | 1,249,967 | 1,080,069 | 1,033,951 |
| Funds committed but not disbursed and guarantees and suretyships | **180,766** | 199,130 | 238,226 | 237,009 | 192,169 | 183,606 |

[1] The ratio of total operating expenses and common share issue expenses is calculated by dividing total 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 period 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 $) | **June 30, 2022 (6 months)** | **Dec. 31, 2021** | **Dec. 31, 2020** | **Dec. 31, 2019** | **Dec. 31, 2018** | **Dec. 31, 2017** |
|---|---|---|---|---|---|---|
| **Net assets per common share, beginning of period/year** | **17.90** | 16.22 | 15.94 | 15.34 | 14.09 | 13.26 |
| Increase (decrease) attributable to operations | **(0.66)** | 1.67 | 0.34 | 0.58 | 1.28 | 0.84 |
| Interest, dividends, distributions and negotiation fees | **0.22** | 0.48 | 0.35 | 0.39 | 0.51 | 0.38 |
| Operating expenses | **(0.18)** | (0.32) | (0.27) | (0.25) | (0.21) | (0.24) |
| Income taxes | **0.02** | — | (0.02) | (0.01) | (0.03) | (0.02) |
| Realized gains (losses) | **(0.28)** | 0.34 | 0.56 | 0.25 | 0.79 | 0.06 |
| Unrealized gains (losses) | **(0.44)** | 1.17 | (0.28) | 0.20 | 0.22 | 0.66 |
| **Difference attributable to common share issues and redemptions** | **(0.01)** | 0.01 | (0.06) | 0.02 | (0.03) | (0.01) |
| **Net assets per common share, end of period/year** | **17.23** | 17.90 | 16.22 | 15.94 | 15.34 | 14.09 |

## 3.0 Recent events

### ECONOMIC ENVIRONMENT

Turbulence persists across the world with the pandemic still in the background, contributing in particular to supply chain issues and labour shortages. The war in Ukraine and the resulting geopolitical tensions are complicating trade relationships and putting upward pressure on oil and commodity prices. Following two years of stimulating the economy, central banks are now tightening monetary policies in the face of rising inflation. In the current environment, amid ongoing financial market volatility and instability, the outlook for economic growth is uncertain.

## 4.0 Overview

CRCD ended the first six months of 2022 with a net loss of $95.8 million (net earnings of $175.8 million for the same period in 2021), representing a non-annualized return of 3.7% (negative non-annualized return of 7.8% as at June 30, 2021), resulting in a decrease in net assets per share to $17.23 based on the number of shares outstanding as at June 30, 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 or due to unfavourable events at partner companies.

Investments impacting the Québec economy posted a negative non-annualized return of 1.8% for the six-month period ended June 30, 2022, compared with a non-annualized return of 14.1% for the same period a year earlier. This negative return stemmed primarily from higher interest rates during the six-month period and lower profitability of a number of companies affected by the economic disruptions. These include inflation, rising raw material costs, labour shortage and procurement issues.

As at June 30, 2022, the cost of Investments impacting the Québec economy totalled $1,588.6 million, of which $219.7 million was disbursed during the first six months of fiscal 2022. As at June 30, 2022, commitments made but not disbursed, including guarantees and suretyships granted to companies, cooperatives or funds, amounted to $180.8 million. New commitments for the year amounted to $201.3 million.

The Other investments portfolio recorded a negative non-annualized return of 4.9%, mainly attributable to the decline in bond prices caused by the significant hike in interest rates during the six-month period. On the upside, real estate funds and market neutral equity funds generated positive returns. For the same period in 2021, non-annualized return on the Other investments portfolio was 1.8%.

During the first half of the year, issues of Class A “Issuance” common shares totalled $0.2 million, namely the balance of the 2021 issue (the 2022 issue will be launched in the fall). Share redemptions totalled $42.0 million, compared with $25.8 million for the same period in 2021. Net assets amounted to $2,457.1 million and shareholders numbered 111,446 as at June 30, 2022. Furthermore, as at June 30, 2022, the balance of shares eligible for redemption amounted to $1,084.3 million. For more information, please see the Subscriptions section of this MD&A.

### 4.1 Our vision for Québec entrepreneurship

With Quebec entrepreneurs showing resilience to overcome the difficulties resulting from the pandemic, fiscal 2021 ended with growth. However, the economic environment changed rapidly and the pace of growth slowed quickly in 2022, in particular due to rising inflation and interest rates.

SMEs and cooperatives are facing many challenges. CRCD, together with its manager Desjardins Capital Inc. (hereinafter DC), are committed to promoting the success of its partner companies. Recruiting personnel is one of the priority issues for many SMEs and cooperatives in Québec, many of which are forced to refuse contracts or delay growth projects due to the lack of employees.

The pandemic and, more recently, the war in Ukraine have led to supply difficulties, leading to delays in deliveries and higher raw material costs. Over the past two years, the enthusiasm for buying local and local development has increased, confirming the importance of CRCD's economic development mission for Quebecers.

Also, many SMEs and cooperatives got into debt during the crisis, in particular to cope with temporary liquidity difficulties. This increase in debt has had a negative impact on the capital structure of some companies, which could ultimately limit their growth, particularly in a rising interest rate environment.

CRCD and its manager DC are investing to support various types of projects. In the current context, the number of business transfer and productivity growth projects are increasing at a fast pace. Population aging and high company valuations are having an impact on the number of company buyouts. In addition, the health crisis has reinforced the need to go digital and invest in technologies, including clean technologies. Increasing productivity is a matter of survival for many of our businesses and is a must to ensure growth and competitiveness, both in Québec and internationally.

Through its manager, 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.

### 4.2 Growing businesses stronger

Be it through the support, networking or training provided to our partner companies or through enhancing our product offering and sharing our business network, we take action on many levels to grow Québec SMEs and cooperatives.

As a leading player on the Québec development capital scene, we contribute to the vitality of the Québec economy by financing growth companies across all Québec regions, and supporting jobs and business successions to build a strong Québec now and for future generations. Leveraging our solid business transfer expertise, we have completed hundreds of transactions, contributing to the continuity and sustainability of Québec's flagship companies. In addition, we support start-up or early-stage companies in traditional sectors, or that use technological or industrial innovations and capitalize on new uses of existing technologies.

A real catalyst in the business development process of our existing and potential partners, we maintain close relationships with entrepreneurs throughout the province by creating numerous networking opportunities. These events bring together entrepreneurs, business partners and experts who have questions on topical matters such as growth challenges and business succession issues.

Furthermore, we provide our partner companies with tailored support, based on industry best practices, for implementing and monitoring sound SME governance practices, which represents undeniable value added. Very active in this area, we provide personalized support to entrepreneurs to help set up advisory committees or boards of directors. We offer them advice tailored to their situation. In addition, we can call on a vast network of experienced directors whose role is to help entrepreneurs set up a governance forum to support business strategy and growth. Directors have access to work tools and are regularly trained and evaluated to ensure they can effectively meet the needs of the companies they work with. Our entrepreneurial governance model, based on agility, simplicity, strategic thinking and alignment with business needs, is a unique type of support greatly appreciated by partner entrepreneurs.

### 4.3 Economic conditions

#### 2022 ECONOMIC ENVIRONMENT

Global economy

The pandemic continues to affect global economic conditions, as evidenced by the lockdowns in some major Chinese cities in the spring. The war in Ukraine is also having major impacts on the global economy. The uncertainty it is generating, the rising energy and commodity prices it is causing, and the new constraints imposed on supply chains are all factors weighing on economic activity. A sharp rise in oil prices caused, among other things, a considerable jump in gasoline prices, and this is undermining household incomes and exacerbating inflation problems that were present in several economies even before the war. Interest rate hikes effected by the major central banks and rising market rates are also weakening the global economy and raising fears of an even more pronounced downturn in economic activity.

The impacts of the war in Ukraine are being felt most acutely in Europe. Some indices of European household confidence have plummeted. Europe's real gross domestic product (GDP) is expected to grow by 2.4% in 2022 and another 1.2% in 2023. In China, real GDP declined in the second quarter, but the government's stimulus package should support a rapid improvement in the country's economy. This being said, China's many regional lockdowns continue to compound global supply chain problems. Chinese GDP is expected to grow by 3.4% in 2022 and another 5.0% in 2023. The global economy is now expected to expand by 2.5% in 2022, followed by a 2.7% increase in 2023.

The stock markets posted strong performance in 2021, but the first half of 2022 proved difficult. First the indices fell in response to a sharp increase in bond rates and expectations of key rate hikes beginning in January. Russia's invasion of Ukraine then further exacerbated financial volatility, with European markets being the hardest hit. Canada's S&P/TSX index was less affected at the outset, as it was supported in part by rising prices for oil and gas and other commodities. Faced with substantial inflationary pressures, the Bank of Canada and the U.S. Federal Reserve quickly began raising their key rates beginning in March 2022. They also clearly signalled several more hikes to come. To accelerate monetary tightening, the central banks also plan to reduce their asset holdings. With inflation showing little sign of abating, investors fear that policy rate hikes will trigger an economic slowdown and even cause a recession. This environment could limit any recovery in 2022 in the values of riskier financial assets. The U.S. dollar is benefiting from its role as a safe haven and should remain strong against most other currencies over the next few quarters.

## United States

U.S. real GDP suffered a setback in early 2022, logging a quarterly annualized decline of 1.6% in the first quarter. Real consumption and business investment performed well, but growth was hampered by a more modest increase in business inventories and, more importantly, a drop in net exports. Sustained high inflation, driven by soaring fuel prices, had a negative impact on some indices of household confidence. These causes for concern were exacerbated by a sharp increase in interest rates, particularly for mortgages. Fortunately, U.S. households can count on a strong labour market.

Annual real GDP growth is expected to slow in 2022 and 2023. Rising interest rates and the impact of inflation on real household income are expected to suppress real goods consumption and slow activity in the housing market. Following a gain of 5.7% in 2021, real GDP growth is expected to reach 2.4% in 2022 and 1.2% in 2023.

## Canada

Canada's real GDP grew strongly in the second half of 2021, but this slowed in early 2022 due to turmoil tied to a number of sources, including the Omicron wave and the protests against health measures staged in some cities and at border crossings. The Bank of Canada's monetary tightening was well underway, as the economy began showing the impacts of interest rate hikes, including in the housing market. Inflation remained high in Canada.

The Canadian economy should continue to be affected by rising interest rates over the next few quarters. A correction is expected in the Canadian housing market. This being said, the low unemployment rate and solid wage growth should support a gradual moderation in consumption, particularly in services. The Canadian economy should also benefit from strong demand for commodities. Canadian real GDP is expected to grow by 3.4% in 2022, followed by another 1.1% in 2023.

## Québec

The pace of annualized real GDP growth in Québec rose to 6.9% in the first quarter of 2022. This strength was mainly driven by consumer spending and investment. The household savings rate, at 15.4%, continued to be high in the first quarter, despite greater household spending. A strong expansion of income, fuelled by job growth and rising wages, made the difference. Consumer spending on goods rallied in the first quarter, while spending on services declined due to the restrictive health measures imposed on some sectors. Residential investment rose sharply in the first quarter on the strength of new home construction as well as renovations. However, property transfer costs continued to trend downwards due to falling sales. A decline in demand and a growing supply of properties for sale have recently brought the existing market back toward equilibrium. Prices started to decline in Quebec, and the correction will continue in those regions where prices have been bid up the most. Business investment continued to rise in the first quarter, as investments in machinery and equipment were up 5.1% and non-residential construction surged by 24.4%. These efforts will need to continue, given current labour shortages and rising costs to businesses. Despite strong performance in the first quarter, the pace of economic growth in Québec is expected to slow soon, as interest rates are on the rise and inflation is high. The housing market has already turned the corner, while household spending and business investment can be expected to lose momentum.

# 5.0 Management's discussion of financial performance

## 5.1 Operating results

### CRCD'S NET RESULTS AND RETURNS

CRCD ended the first half of the year on June 30, 2022, with a net loss of $95.8 million, or a non-annualized return of 3.7%, compared with net earnings of $175.8 million (non-annualized return of 7.8%) for the same period in 2021. Based on the number of common shares outstanding, net assets per share decreased to $17.23 as at the end of the six-month period, compared with $17.90 at the end of fiscal year 2021. For illustrative purposes, at the current price of $17.23, shareholders who invested seven years ago, on August 19, 2015, would obtain an annual after-tax return of more than 12.2%, taking into account the 45% income tax credit as per the rate applicable at that time.

CRCD's results stem primarily from Investments impacting the Québec economy and Other investments, which generated negative non-annualized returns of 1.8% and 4.9%, respectively. For the same period in 2021, Investments impacting the Québec economy and Other investments posted non-annualized returns of 14.1% and 1.8%, respectively. Expenses, net of administrative charges and income taxes, had an impact of 1.0% on CRCD's negative non-annualized return. Financial expenses had an insignificant impact on CRCD's non-annualized return.

CRCD's asset allocation strategy allows it to enjoy a more balanced overall portfolio profile, while actively contributing to Québec's economic development.

**Return by activity**

| | As at June 30, 2022 | | | |
|---|---|---|---|---|
| | **Average assets under management ($M)** | **Weighting (%)** | **Non-annualized return 6 months (%)** | **Non-annualized contribution 6 months (%)** |
| Activities related to Investments impacting the Québec economy [1] | **1,866** | **72.3** | **(1.8)** | **(1.3)** |
| Other investments and cash | **715** | **27.7** | **(4.9)** | **(1.4)** |
| Financial expenses | | | **(0.0)** | **(0.0)** |
| | **2,581** | **100.0** | **(2.7)** | **(2.7)** |
| Expenses, net of administrative charges | | | **(1.1)** | **(1.1)** |
| Income taxes | | | **0.1** | **0.1** |
| **CRCD's return** | | | **(3.7)** | **(3.7)** |

| | As at June 30, 2021 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Activities related to Investments impacting the Québec economy [1] | 1,390 | 60.2 | 14.1 | 8.1 |
| Other investments and cash | 920 | 39.8 | 1.8 | 0.9 |
| | 2,310 | 100.0 | 9.0 | 9.0 |
| Expenses, net of administrative charges | | | (1.1) | (1.1) |
| Income taxes | | | (0.1) | (0.1) |
| **CRCD's return** | | | 7.8 | 7.8 |

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

During the six-month period ended June 30, 2022, liquidity needs exceeded expectations, mainly to make investments impacting the Québec economy. Accordingly, as at June 30, 2022, the amount drawn from the operating credit facility amounted to

$196.3 million. Financial expenses related to this credit facility were recorded in the results of the current six-month period. Refer to the Liquidity and capital resources section for details on the credit facility used.

## INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of $249.7 million and disposals of $73.0 million (including non-cash items) were made for a positive net balance of $176.7 million. Combined with realized and unrealized net losses of $58.3 million, these net investments brought the fair value of the Investments impacting the Québec economy portfolio, including foreign exchange contracts, to $1,916.7 million as at June 30, 2022 ($1,798.3 million as at December 31, 2021). Of the $249.7 million invested during the first half of the year, $136.3 million was allocated to five companies and $11.1 million to the funds comprising the entrepreneurial ecosystem, as described below.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, including guarantees and suretyships, which amounted to $180.8 million as at June 30, 2022, compared with $199.1 million as at December 31, 2021. Total commitments at cost as at June 30, 2022, amounted to $1,769.3 million in 370 companies, cooperatives and funds, of which $1,588.6 million was disbursed. As at June 30, 2022, backed by its entrepreneurial ecosystem, CRCD supported growth in 750 companies, cooperatives and funds.

During the first six months of fiscal year 2022, Investments impacting the Québec economy generated a negative contribution of $32.8 million, for a negative non-annualized return of 1.8%, compared with a contribution of $183.6 million for the same period of 2021 (non-annualized return of 14.1%).

### Contribution generated by Investments impacting the Québec economy

| (in thousands of $) | **Six months ended June 30, 2022** | Six months ended June 30, 2021 |
|---|---|---|
| Revenue | **25,974** | 26,588 |
| Gains and losses | **(58,776)** | 157,008 |
| **Total** | **(32,802)** | 183,596 |

Revenue includes interest, dividends and negotiation fees related to Investments impacting the Québec economy. Negotiation fees, which amounted to $2.6 million for the six months ended June 30, 2022 ($1.6 million for the same period in 2021), were earned by DC, the manager, and a credit for that amount was applied against the management fees paid to DC by CRCD. Negotiation fees are included in the contribution generated by the Investments impacting the Québec economy as they are included in the profitability analysis of the investments. The profile of the investments held by CRCD is changing and the amounts injected into its ecosystem funds continue to grow (see the following section for more details). Therefore, investments held by these ecosystem funds generate revenue in addition to the revenue generated by CRCD's direct investments. This revenue, of which CRCD's share amounted to $9.4 million for the first six months of fiscal 2022 ($12.5 million for the same period in 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 six-month period a realized and unrealized loss of $58.8 million compared with a gain of $157.0 million for the same period in 2021. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at June 30, 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 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

**CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS**

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

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

- The main goal of the Desjardins Capital PME s.e.c. fund (DCPME), created on January 1, 2018, is to invest in Québec's small- and medium-sized businesses, with an investment limit generally not exceeding $10 million. This sustainable fund is an open-ended limited partnership, allowing the number of limited partners to vary. The limited partners' commitments are made on an annual basis. On January 1, 2022, Desjardins Québec Balanced Fund (DQBF) became a limited partner of the DCPME fund. As at June 30, 2022, CRCD's interest in the DCPME fund was 40.7%, while the interests of the other three limited partners, Desjardins Private Management (DPM), Desjardins Holding Financier (DHF), and DQBF, were 38.9%, 19.6% and 0.8%, respectively. As at June 30, 2022, CRCD has disbursed $179.5 million ($173.4 million as at December 31, 2021) allowing a total of 254 companies to benefit from $515.0 million committed by the DCPME fund.

- Jointly with France-based Groupe Siparex, on July 4, 2018, DC created two funds: the Desjardins Capital Transatlantic, L.P. fund (DC Transatlantic) and the Siparex Transatlantique – Fonds professionnel de Capital Investissements fund. The purpose of these funds is to co-invest in SMEs in Québec and Europe to support them in their marketing or acquisition efforts on both sides of the Atlantic. CRCD and other investor partners such as Export Development Canada (EDC), Groupe Siparex and French public investment bank BPIFrance committed a total of €75 million, or approximately $101 million to the two funds. DC Transatlantic's five-year planned investment period closes on July 4, 2023. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at June 30, 2022, CRCD had disbursed $24.7 million ($21.5 million as at December 31, 2021) of its total commitment of $30.8 million (€22.8 million), allowing 14 companies to benefit from $30.7 million committed by the fund.

- The objective of the Société en commandite Essor et Coopération (Essor et Coopération), established on January 1, 2013, is to support the creation, growth and capitalization of cooperatives in Québec. CRCD and other partners, including three from the cooperative sector, have made commitments totalling $89.9 million. Essor et Coopération's investment period, which ended on December 31, 2019, has been extended until December 31, 2021. 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. Following the investment period, CRCD maintains a commitment of $22.2 million that will be used for reinvestment and to pay the Fund's operating expenses until its scheduled winding up. As at June 30, 2022, Essor et Coopération had made commitments totalling $38.6 million to support 28 cooperatives.

- CRCD is also the joint sponsor of the Desjardins-Innovatech S.E.C. fund (DI) with the Economic Development Fund. DI has undertaken to inject a total of $85 million to support Québec technology or innovation businesses through each stage of their development. CRCD's interest in DI is 54.5%. In addition to this interest, CRCD has agreed to make an additional investment in the form of a note for a maximum amount of $5.0 million in DI of which $0.3 million was disbursed during the first six months of 2022 for a total disbursement of $3.4 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 June 30, 2022, DI had made commitments of $57.7 million to support a total of 46 companies and funds.

- The Capital croissance PME s.e.c. and Capital croissance PME II s.e.c. funds (collectively, the "CCPME" funds), created in 2010 and 2014, respectively, and whose investment periods have closed, had an investment policy similar to that of the DCPME fund, which is to make capital available to Québec companies, with an investment limit not exceeding $5 million. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the funds, had agreed to invest, on a 50/50 basis, a total amount of $540 million. As at June 30, 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 127 companies and funds benefited from $92.5 million committed by the CCPME funds as at June 30, 2022. Since their inception, the funds have committed $460.4 million to 376 companies.

In total, as at June 30, 2022, CRCD and its ecosystem supported the growth of 750 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $2,181 million. Of that total, 32 cooperatives benefited from commitments of $175 million. In this way, CRCD and its ecosystem have helped to create and retain many thousands of jobs.

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

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

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

- Debt: investments in the form of advances and/or mainly unsecured loans and/or preferred shares;

- Equity: investments comprising common shares and units of limited partnerships that may be combined with advances and/or mainly unsecured loans and preferred shares in companies other than those included under the Startups and technological innovations profile;

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

- Startups and technological innovations: investments in companies specializing in the pre-startup, startup or post-startup stages.

### Return by investment profile

| | As at June 30, 2022 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Debt | **506** | **19.6** | **(1.6)** | **(0.3)** |
| Equity | **1,023** | **39.6** | **(2.0)** | **(0.7)** |
| External funds | **52** | **2.0** | **13.7** | **0.2** |
| Startups and technological innovations | **268** | **10.4** | **(4.7)** | **(0.5)** |
| **Investment profiles subtotal** | **1,849** | **71.6** | **(1.9)** | **(1.3)** |
| Other asset items held by ecosystem funds | **17** | **0.7** | **0.7** | **—** |
| **Ecosystem total** | **1,866** | **72.3** | **(1.8)** | **(1.3)** |

| | As at June 30, 2021 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Debt | 404 | 17.5 | 3.3 | 0.6 |
| Equity | 787 | 34.1 | 21.0 | 6.5 |
| External funds | 43 | 1.9 | 10.3 | 0.2 |
| Startups and technological innovations | 137 | 5.9 | 17.3 | 0.8 |
| **Investment profiles subtotal** | 1,371 | 59.4 | 14.3 | 8.1 |
| Other asset items held by ecosystem funds | 19 | 0.8 | (1.6) | — |
| **Ecosystem total** | 1,390 | 60.2 | 14.1 | 8.1 |

The negative 1.8% non-annualized return of the Investments impacting the Québec economy portfolio for the first six months of fiscal 2022 stemmed partly from the Equity investment profile, which recorded a negative non-annualized return of 2.0%.

This performance stemmed from the significant decline in the stock markets during the period and the losses caused by supply chain issues and labour scarcity that affected several sectors including the automotive sector. The Debt profile's decline in performance was mainly due to current market conditions with corporate bond yields rising sharply during the current six-month period. External funds generated a solid return in the first half of 2022, driven mainly by a significant gain in one of its holdings. Lastly, the Start-ups and technological innovations profile, which generated strong growth in 2021, declined mainly due to a significant impairment recorded in a large portfolio company during the current period.

## OTHER INVESTMENTS

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

CRCD has implemented management strategies for the Other investments portfolio to optimize potential returns while retaining the required liquidity to meet liquidity needs arising from redemption requests from shareholders and Investments impacting the Québec economy it expects to make. This portfolio, consisting primarily of liquid assets, includes fixed-income securities, global equity funds, Canadian equity funds, real estate funds, infrastructure funds and market neutral equity funds. This portfolio provides a current revenue stream for CRCD and ensures sound diversification.

As at June 30, 2022, CRCD's Other investments portfolio, including cash, but excluding foreign exchange contracts and the bank overdraft, totalled $679.2 million ($752.4 million as at December 31, 2021) and consisted of the following:

### Other investments portfolio

| | **As at June 30, 2022** | | As at December 31, 2021 | |
|---|---|---|---|---|
| | **Fair value ($M)** | **% of portfolio** | Fair value ($M) | % of portfolio |
| Cash and money market instruments | **3.0** | **0.4** | 27.4 | 3.6 |
| Bonds | **272.0** | **40.0** | 317.6 | 42.2 |
| Global equity funds | **56.4** | **8.3** | 61.9 | 8.3 |
| Canadian equity funds | **54.7** | **8.1** | 101.3 | 13.5 |
| Real estate funds | **127.4** | **18.8** | 79.2 | 10.5 |
| Infrastructure funds | **16.9** | **2.5** | — | — |
| Market neutral equity funds | **148.8** | **21.9** | 164.9 | 21.9 |
| **Portfolio total** | **679.2** | **100.0** | **752.3** | **100.0** |

As at June 30, 2022, 99.7% of portfolio bond securities were government guaranteed (99.7% as at December 31, 2021).

The Other investments portfolio represented 27.6% of total net assets at the end of the first six months of 2022 (29.0% as at December 31, 2021), a decrease mainly arising from losses in bonds and a decrease in the amount of cash available.

Commitments already made but not disbursed of $170.8 million, representing 6.9% of net assets, will eventually be made from CRCD's Other investments portfolio and credit facilities and allocated to Investments impacting the Québec economy.

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 $) | **Six months ended June 30, 2022** | Six months ended June 30, 2021 |
|---|---|---|
| Revenue | **8,349** | 6,183 |
| Gains and losses | **(45,224)** | 10,675 |
| **Total** | **(36,875)** | 16,858 |

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 the first six months of 2022 was up $2.2 million compared to the same period in 2021, due to the increase in distributions received on equity funds, offset by the decrease in the proportion of bonds that led to lower interest income despite the increase in the effective rate between the two periods.

Losses of $45.2 million in the first six months of 2022 stemmed mainly from the following financial assets:

- Bonds recorded a loss of $49.2 million, as government bond yields rose 188 basis points during the six-month period in response to inflationary pressures.

- The same inflationary pressures that gave rise to fears of an economic slowdown also severely disrupted equity markets during the six-month period, impacting the portfolio's Canadian and global equity funds, which ended the six-month period with a $10.5 million loss. However, the market neutral equity funds and the real estate funds did well to post a $14.5 million gain.

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 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 current 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 is authorized, for the 2021 and 2022 issue periods, to exchange shares up to an annual maximum of $50 million. The program allows CRCD shareholders who have never redeemed shares to exchange their current eligible Class A "Issuance" shares, up to a value of $15,000 annually, for new Class B "Exchange" shares that they will also be required to hold for seven years, as consideration for a provincial tax credit of 10% of the amounts exchanged.

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

The minimum holding period for CRCD shares, regardless of their class, before a shareholder would normally be eligible for a redemption is seven years to the day from the date of purchase or exchange. Note, however, that shareholders who withdraw some or all of their shares after the seven-year holding period may no longer claim a tax credit for any subscription or exchange for which the tax credit would apply in the current tax year or in any subsequent tax year. A special tax is payable by CRCD if it fails to comply with the authorized issuance or exchange amounts, and control mechanisms have been implemented by CRCD to ensure compliance. For the first six months of 2022 and for fiscal year 2021, no special tax was paid.

As at June 30, 2022, CRCD had $1,853.7 million in share capital ($1,859.6 million as at December 31, 2021) for 142,614,349 common shares outstanding (144,959,191 as at December 31, 2021).

During the first six months of the year, CRCD raised $0.2 million through Class A "Issuance" shares, namely the balance of the 2021 issue. The subscription period for the 2022 issue will begin in the fall.

The exchange registration period for the 2021 taxation year took place in the fall of 2021 and acceptance of applications was completed and recorded in January 2022 for an authorized amount of $50 million. The same timeline will apply for the 2022 exchange: the registration period is scheduled for late 2022 while applications will be accepted in January 2023.

Redemptions of common shares totalled $42.0 million for the first six months of 2022, compared with $25.8 million for the same period in 2021, which represented a historically low volume of redemptions.

As at June 30, 2022, the balance of shares eligible for redemption amounted to $1,084.3 million. During the last six months of 2022, additional shares valued at approximately $26.5 million will also become eligible for redemption bringing total potential redemptions to $1,110.8 million. However, this balance will be reduced by the amount of shares that will be redeemed in the second half of 2022.

As at June 30, 2022, shareholders numbered 111,446 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 $) | **Six months ended June 30, 2022** | Six months ended June 30, 2021 |
|---|---|---|
| Management fees | **14,006** | 13,305 |
| Other operating expenses | **5,620** | 3,203 |
| Shareholder services | **6,403** | 5,497 |
| **Total** | **26,029** | 22,005 |

CRCD has entrusted the management of its operations, including the management of its Investments impacting the Québec economy and Other investments portfolios, to DC, pursuant to the terms of a management agreement concluded between them. Under this agreement, CRCD pays DC management fees equivalent to a maximum rate of 1.75% of CRCD's annual average assets' value, after deduction of any amounts payable related to Investments impacting the Québec economy and Other investments. An adjustment is made to the management fees to avoid double billing relative to CRCD's interest in other investment funds, whether in the Investments impacting the Québec economy portfolio or in Other investments. DC and CRCD have agreed that, for a given fiscal year, an adjustment could be made to allow CRCD to benefit from the economies of scale achieved by DC in particular with regard to the growth of CRCD's assets. Such a downward adjustment of $3.7 million was made for the six-month period ended June 30,2022. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD. The increase in management fees is consistent with the increase in CRCD's average value of assets under management as at June 30, 2022.

The $2.4 million increase in operating expenses compared to the same period in 2021 was mainly due to higher expenses related to the IT master plan to support asset growth, and in particular to a lag in these expenses during the first half of 2021.

Shareholder services increased by $0.9 million compared to the same period in 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 six-month period ended June 30, 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 June 30, 2022 between the different entities of the Desjardins Group and CRCD are currently under review ahead of their renewal.

For the first six months of fiscal year 2022, an income tax recovery of $3.1 million was recorded, compared with an income tax expense of $1.1 million for the same period of 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 six-month period ended June 30, 2022, cash outflows from share issues net of redemptions amounted to $41.8 million (net cash outflows of $25.3 million for the same period in 2021).

Operating activities combined with fees for the development of intangible assets generated net cash outflows of $178.3 million (net cash inflows of $111.4 million in 2021). This net cash outflow was related primarily to disbursements for Investments impacting the Québec economy, which amounted to $219.7.0 million for the first six months of 2022 ($147 million in 2021). Given the use of the credit facility during the first half of 2022 for disbursements related to Investments impacting the Québec economy, the Other investments portfolio generated net cash inflows of $6.6 million, compared with net cash inflows of $110.2 million for the same period in 2021.

As at June 30, 2022, cash and cash equivalents showed a net overdraft balance of $193.8 million (positive balance of $26.3 million as at December 31, 2021).

CRCD has an authorized line of credit of $250 million as at June 30, 2022. This line of credit was drawn down during the first six months of the year. As the funds required for Investments impacting the Québec economy were much greater than the proceeds from disposals of Investments impacting the Québec economy, the operating credit facility was drawn in the amount of $196.3 million as at June 30, 2022. Although CRCD could dispose of sufficient additional investments to repay the credit facility in full by the end of fiscal 2022, a medium-term repayment plan for the credit facility has been drawn up to maintain a sound allocation of CRCD's assets. Under this plan, the credit facility would be fully repaid on an exceptional basis within 18 to 36 months. 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.

## 5.2 CRCD's mission, vision, strategic priorities and strategies

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

CRCD's vision, mission, objectives and strategies remain substantially similar to those described in its most recent annual MD&A.

Under its constituting act, CRCD is required to fulfil its mission within certain guidelines, which include investing 65% of its average net assets in eligible Québec companies as 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 June 30, 2022, and December 31, 2021, all of those rules were met.

## 5.3 Governance

### BOARD OF DIRECTORS

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

The committee roles and responsibilities remain substantially similar to those described in the most recent annual MD&A.

## 5.4 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 audited by CRCD's independent auditor as part of the audit of the separate financial statements in respect of which an independent auditor's report was issued on August 11, 2022.

### MARKET RISKS

Market risks pertain to CRCD's role in the capital markets and, indirectly, to general changes in economic conditions. They also pertain to the impact of capital market movements on the value of CRCD's assets. The various risks that make up market risks directly impacting CRCD are listed below.

In accordance with CRCD's global financial asset management approach, the impact of these interest rate and stock market risks and their interrelatedness are taken into account when determining overall asset allocation.

Interest rate risk

Interest rate fluctuations have an impact on the market value of fixed-income securities, 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 June 30, 2022, was $779.5 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 $0.9 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 $272.0 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 decrease of $33.3 million in net earnings, representing a 1.3% decrease in CRCD's share price as at June 30, 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 $38.2 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 $127.4 million and $16.9 million, respectively, as at June 30, 2022 ($79.2 million and $0.0 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 $499.8 million ($408.3 million as at December 31, 2021), are not sensitive to changes in interest rate. Conversely, the other loans and advances and preferred shares included in the portfolio, totalling a fair value of $362.3 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 a $7.8 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 an $8.2 million increase in net earnings, representing a 0.3% 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 June 30, 2022, global and Canadian equity funds, valued at $111.1 million ($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 an $11.1 million increase or decrease in net earnings, representing a 0.4% increase or decrease in CRCD's share price ($16.3 million for 0.8% as at December 31, 2021).

Market-neutral equity funds, valued at $148.8 million as at June 30, 2022 ($164.9 million as at December 31, 2021), are less exposed to stock market fluctuations as they minimize market risk. Accordingly, 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 $23.4 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 $2.3 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 $170.9 million or 7.0% of net assets as at June 30, 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 June 30, 2022, CRCD held a foreign exchange contract under which it will be required to deliver US$124.6 million (US$114.0 million as at December 31, 2021), at the rate of CAD/USD 1.2887 (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 1.3729 (CAD/EUR 1.4555 as at December 31, 2021) on December 30, 2022. As at June 30, 2022, CRCD had nil collateral on its foreign exchange contracts (nil as at December 31, 2021).

As at June 30, 2022, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $14.6 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 June 30, 2022, the exposure to foreign currencies exceeded CRCD's internal guidelines. As a result, an adjustment was made to foreign exchange contracts after June 30, 2022 to reduce net foreign currency exposure to $2.2 million.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $105.9 million ($61.5 million as at December 31, 2021), an increase mainly related to the acquisition of real estate and infrastructure funds during the first half of the year. Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all other foreign currencies would have resulted in a $10.6 million increase (decrease) in net earnings, representing a 0.4% 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 suretyships. To date, the impacts of the recent economic difficulties are only partially reflected in our portfolio companies' annual financial documents that are used to update risk ratings. Accordingly, as at June 30, 2022, for the majority of Investments impacting the Québec economy and undisbursed committed funds as well as guarantees and securities, it is possible that recent economic conditions have not been reflected in credit risk.

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 June 30, 2022** | | As at December 31, 2021 | |
|---|---|---|---|---|---|
| Rating | | **(in thousands of $)** | **(as a %)** | (in thousands of $) | (as a %) |
| 1 to 6.5 | Low to acceptable risk | **1,651,705** | **86.2** | 1,533,608 | 85.4 |
| 7 to 9 | At risk | **232,596** | **12.1** | 200,248 | 11.1 |
| 10 | High risk and insolvent | **32,006** | **1.7** | 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 June 30, 2022** | | As at December 31, 2021 | |
|---|---|---|---|---|---|
| Rating | | **(in thousands of $)** | **(as a %)** | (in thousands of $) | (as a %) |
| 1 to 6.5 | Low to acceptable risk | **128,050** | **70.9** | 164,861 | 82.8 |
| 7 to 9 | At risk | **46,483** | **25.7** | 28,036 | 14.1 |
| 10 | High risk and insolvent | **6,233** | **3.4** | 6,233 | 3.1 |

The difference between the two periods for the "At Risk" category is mainly due to two significant files being classified by default in this category. These files will eventually be reviewed once they have been disbursed in the portfolio of Investments impacting the Québec economy.

For the bonds, which represented 40.1% 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 June 30, 2022** | As at December 31, 2021 |
|---|---|---|
| Rating [(1)] | **(in thousands of $)** | (in thousands of $) |
| AAA | **100,324** | 188,811 |
| AA | **160,577** | 114,790 |
| A | **11,054** | 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 June 30, 2022** | | As at December 31, 2021 | |
|---|---|---|---|---|
| | **% of portfolio** | **% of net assets** | % of portfolio | % of net assets |
| Investments impacting the Québec economy [(1)] | **25.4** | **21.7** | 27.4 | 21.1 |
| Other investments [(2)] | **54.9** | **15.1** | 59.2 | 16.7 |

(1) CRCD's interest in the ecosystem funds accounted for 53.0% (52.8% 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 34.4% and 65.6% respectively (29.3% and 70.7% 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 June 30, 2022, the Investments impacting the Québec economy portfolio represented 78.4% of net assets (69.6% as at December 31, 2021).

CRCD has adopted a *Global financial asset management and investment guidelines Policy* to govern the holding of foreign securities within the Other investments portfolio. As at June 30, 2022, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in global equity funds and comprised 84.4% of Canadian securities (91.8% as at December 31, 2021). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at June 30, 2022, the Other investments portfolio represented 27.6% 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 June 30, 2022, bond securities represented 11.1% 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 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 the first half of 2022 as well as in fiscal 2021 to meet the need for funds that exceeded expectations.

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 provides 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.

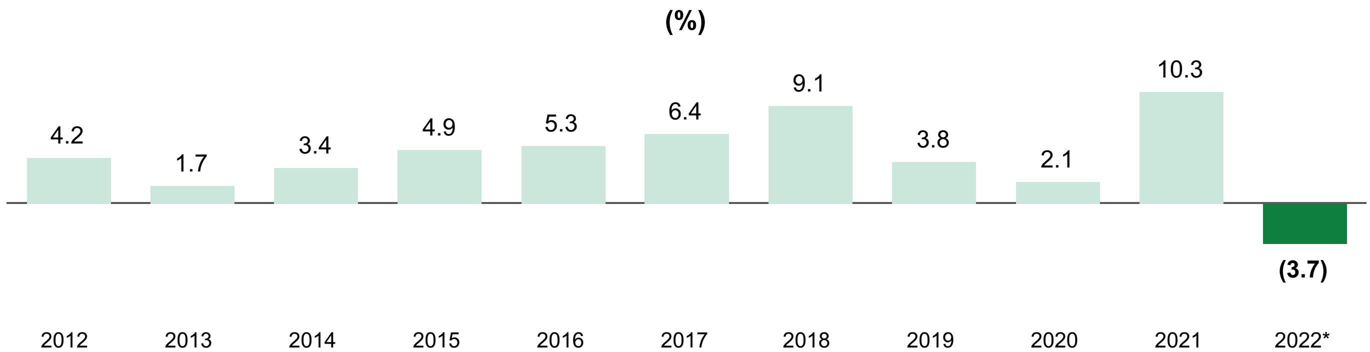
CRCD, through its balanced financial strategy, authorized line of credit, and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

# 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 and for the six-month period ended June 30, 2022. The annual return is calculated by dividing earnings (loss) per share for the period by the share price at the beginning of the period.




*Non-annualized return for the six-month period ended June 30, 2022.

## 6.2 Compounded return of the common share as at June 30, 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 |
|---|---|---|---|---|
| 4.3% | 5.1% | 4.6% | 2.5% | (1.5)% |

# 7.0 Portfolio summary

## 7.1 Core investment profiles

As at June 30, 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 | 20.3 |
| Equity | 44.3 |
| External funds | 2.4 |
| Startups and technological innovations | 10.9 |
| Other asset items held by ecosystem funds | 0.5 |
| **Total - Investments impacting the Québec economy** | **78.4** |
| **OTHER INVESTMENTS** | |
| Cash and money market instruments | 0.1 |
| Bonds | 11.1 |
| Global equity funds | 2.3 |
| Canadian equity funds | 2.2 |
| Real estate funds | 5.1 |
| Infrastructure funds | 0.7 |
| Market neutral equity funds | 6.1 |
| **Total - Other investments** | **27.6** |

* Including foreign exchange contracts

Net assets are made up of 98.0% investment profiles listed above, net of the bank overdraft, and 2.0% other asset items.

### 7.2 Main investments held

As at June 30, 2022, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

| Issuers as at June 30, 2022 | % of net assets |
|---|---|
| Investments impacting the Québec economy – 17 issuers* | 43.3 |
| Fiera Properties CORE Fund | 3.9 |
| CC&L market neutral funds | 3.6 |
| Province of Ontario | 2.8 |
| Canada Housing Trust | 2.5 |
| DGIA Canadian Equity Market Neutral Fund | 2.4 |
| Desjardins Global Dividend Fund | 2.3 |
| Province of Quebec | 1.7 |
| Government of Canada | 1.6 |

| * The 17 issuers which collectively represent 43.3% of CRCD's net assets are: |
|---|
| 9388-7628 Québec inc. |
| Avjet Holding inc. |
| Capital croissance PME II 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. |
| Gecko Alliance Group inc. |
| Gestion Jérico inc. |
| Groupe Filgo inc. |
| Groupe Solotech inc. |
| Investissement Groupe Champlain RPA, S.E.C. |
| Norbec Group inc. |
| SJM Group inc. |
| Sollio Groupe Coopératif |
| Technic-Eau Drillings inc. |

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

August 11, 2022

# 8.0 Management's report

August 11, 2022

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

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

Furthermore, the Desjardins Group Relations director and Chief Financial Officer have certified that the method used to determine the fair value of each of the Investments impacting the Québec economy complies with the requirements of the Autorité des marchés financiers and have confirmed the reasonableness of the aggregate fair value of the portfolio of Investments impacting the Québec economy.

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

The financial statements present the financial information available as at August 11, 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