BDC CORPORATE PLAN SUMMARY 2012-2013 to 2016-2017

> OPERATING BUDGET
> CAPITAL BUDGET

Entrepreneurs first

The 2012-2013 to 2016-2017 Corporate Plan Summary is based on the Corporate Plan, as approved by the Governor in Council on the recommendation of the Minister of Industry.

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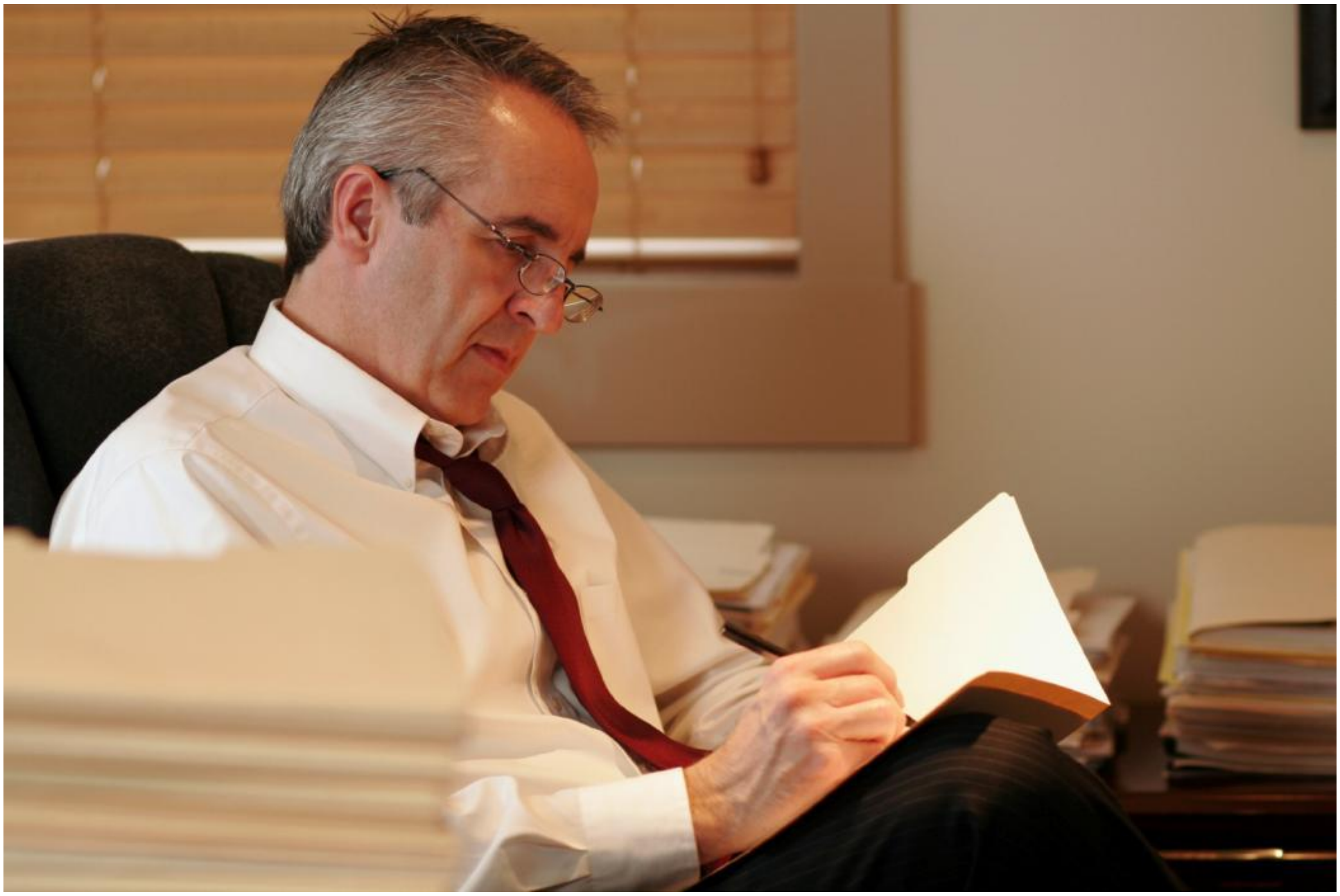
EXECUTIVE SUMMARY



Executive Summary

While Canada's economy is recovering from the recent recession, it is not immune to the turbulence of today's international marketplace.

Recovery from the global financial crisis of 2008-09 is threatened by ongoing sovereign debt problems in the Eurozone. Canada's largest trading partner, the United States, continues to experience slow growth and fiscal challenges. In Canada, it seems that small and medium-sized enterprises (SMEs) are wary of making significant investments or embarking on new projects, even though liquidity has returned since the height of the crisis.

For BDC, this presents a unique set of circumstances. During the financial crisis, BDC played an important role at the request of the Shareholder, ensuring that credit was available to Canadian businesses and helping to provide liquidity in the securitization market. As a result of this counter-cyclical role, BDC's market share of term debt rose from 2.9 percent to 3.5 percent in 2009 and 3.9 percent in 2010.

BDC's programs under the Economic Action Plan (EAP) are now winding down, and BDC will be returning unused EAP capital to the government, in response to a request from the Shareholder.

In general, and in line with its complementary role, BDC's activity has moderated as private-sector lenders return to the market.

Helping SMEs innovate and grow

BDC's primary objective remains helping Canadian businesses at all stages of development to innovate and grow through financing, consulting, venture capital (VC) and strategic initiatives. It does this alongside the private sector, as BDC is a long-term lender and all its clients also work with a commercial financial institution.

In support of Canada's Digital Economy Strategy, BDC was asked by the Shareholder to develop an information and communication technology (ICT) strategy that encourages entrepreneurs to upgrade their ICT and better incorporate it into their everyday operations. As part of that strategy, BDC is working to make ICT services cost-effective and accessible for entrepreneurs, regardless of size or sector. The strategy also builds on BDC's current work in ICT, which includes its support for the commercialization of innovation through VC.

To help high-potential firms access the capital they need to sustain their growth, BDC will continue to offer financing and subordinate financing solutions. BDC's role in assisting these firms, run by ambitious and innovative entrepreneurs, is important as such firms account for significant job and economic growth and contribute to domestic innovation and productivity. However, they face significant challenges to growth, including the relatively small size of the domestic market.

Supporting an entrepreneurial ecosystem

The second overarching objective for BDC over the planning period is to support a healthy entrepreneurial ecosystem in Canada – one in which aspiring entrepreneurs have the support they need to start their business and one in which there is collaboration between multiple partners, including other entrepreneurs, industry associations, universities and governments, all of whom are committed to the entrepreneur's success.

BDC continues to support start-ups and small firms to help ensure robust business creation in Canada, one indicator of a healthy entrepreneurial ecosystem. A healthy ecosystem also needs mid-sized companies, the growth of which BDC will continue to support.

To reach and serve a wide variety of entrepreneurs, BDC will continue to improve upon and expand its range of partnerships. From financial institutions, to government partners, to private-sector organizations, to non-profits, BDC strives to bring together the knowledge, information and services most useful to SMEs.

For entrepreneurs, time is money. With the goal of putting entrepreneurs first, BDC is exploring how it can better serve existing and new clients by expediting loans for specific purposes, offering new online ways of doing business with BDC, and streamlining many of its processes.

This will not only save time and money for the entrepreneur, but also reduce paper burden, as BDC recognizes the importance of the federal government's initiatives on red tape reduction.

As BDC works to fulfill and anticipate the needs of entrepreneurs today and in future, it will be guided by the priorities of its Shareholder. The ongoing ten-year legislative review of the BDC Act will help set the parameters under which BDC will operate for the next 10 years.

Planned Financial Performance

With the transition to moderate economic growth following the financial crisis and in line with its complementary role, BDC expects no growth in acceptances from fiscal year 2012 to 2013.

BDC remains ready to respond if economic conditions warrant, and will continue to address market deficiencies, particularly in high-risk segments of the market. BDC's Financing portfolio is expected to grow more slowly over the planning period than forecast in last year's Corporate Plan, reaching $15.9 billion by fiscal 2013.

By contrast, BDC expects an increase in acceptances for Subordinate Financing, driven by BDC's efforts to continue to support high-growth firms, in line with Shareholder priorities. The portfolio is expected to grow to $497 million in fiscal 2013.

For BDC Consulting, revenues are expected to increase slightly to $25 million in fiscal 2013. BDC has noted that, despite their general optimism about the future financial health of their firms, entrepreneurs seem reluctant to purchase consulting services given the economic uncertainty. To increase its efficiency without compromising service, BDC will be reviewing its approach to Consulting starting in fiscal 2013.

BDC VC expects to authorize $130 million in direct and indirect investments in fiscal 2012, growing to $143 million in fiscal 2013. This is a significant increase from last year's results and forecast, resulting from the ongoing implementation of BDC VC's strategy.

BDC's net income is expected to reach $508 million in fiscal 2012, due mainly to the reversal of provision for losses. Importantly, retained earnings will be affected by significant actuarial losses on post-employment benefits related to the application of International Financial Reporting Standards (IFRS). This will result in a comprehensive income of $252 million for fiscal 2012, and $253 million in fiscal 2013.

BDC is also adhering to the spirit and intent of the Government's Strategic and Operating Review (SOR) and will lower its efficiency ratio, reflecting fewer dollars being spent to generate each dollar of revenue.

BDC PROFILE: For 67 years, a steadfast supporter of Canadian entrepreneurs

MISSION Help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs	**1,950** employees	**$18B** assets	**$180M** dividends paid since 1997

	BC & YUKON	PRAIRIES & NORTHERN	ONTARIO	QUEBEC	ATLANTIC	TOTAL
Business centres and offices[1]	17	17	34	22	13	103
Clients[2]	3,358	4,029	7,565	9,644	3,848	28,444
Loans/Investments[3]	$2.0B	$2.6B	$5.2B	$5.6B	$1.6B	$17.0B

BDC CLIENTS

Generate more than **$179B** in annual revenue

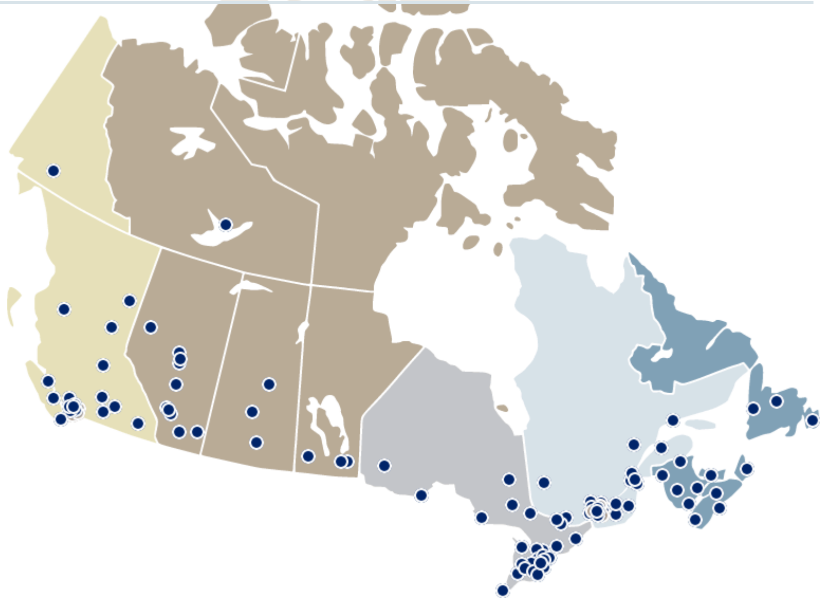
$22B in export revenue

employ more than **720,000** people

75% are small (<20 employees)

86% of clients agree that BDC contributes to the economic development of Canada[4]

58 of Profit Magazine's 2011 200 fastest growing companies received BDC support



BDC BUSINESS LINES

FINANCING	SUBORDINATE FINANCING	VENTURE CAPITAL	CONSULTING	SECURITIZATION
Term loans with flexible repayment schedules	Hybrid instrument combining debt and equity financing without ownership dilution	Direct and indirect equity investments in multiple technology sectors	Customized and affordable business consulting, planning and management solutions	Debt financing that relies on the pooling of illiquid assets
$15.9B committed **2.9%** of Canadian term financing market[5]	**$278M** committed	**$717M** committed[6] **5%** of reported VC transactions ($) in Canada[7]	**2,300** mandates in 2011	**$790M** ABS outstanding under CSCF[8] **$400M** authorized under MSPSO[8]

ALL BDC FINANCIAL DATA IN THIS PLAN ARE AS AT MARCH 31, 2011 UNLESS OTHERWISE NOTED

1 Includes Head Office
2 # of Financing, Subordinate Financing and VC clients and funds
3 $ committed for Financing, Subordinate Financing and VC clients and funds, excluding inactive companies
4 For BDC Financing clients, BDC Client Value Survey, June 2011
5 Based on 2008 data from Statistics Canada's survey of SME financing suppliers, 2009
6 As at September 2011
7 Based on BDC authorizations (direct investments only) versus total industry authorizations taken from Thomson Reuters
8 CSCF = Canadian Secured Credit Facility, outstanding as at December 31, 2011; MSPSO = Multi-Seller Platform for Small Originators, authorizations as at December 31, 2011

FINANCING

REALTY	WORKING CAPITAL	OTHER	
> Purchase > Expansion > Construction	> Growth > Innovation > Market Expansion	> New or used long-term assets and equipment > ICT > Business transition > Investment in global opportunities	> Restructuring > Infrastructure (SME support) > Lending in partnership with other financial institutions (FIs)

COMMITMENT

Manufacturing	26%
Wholesale & Retail	21%
Tourism	13%
Construction	8%
Transport & storage	6%
Commercial properties	9%
Business services	4%
Other	13%

Atlantic | Prairies & North | Quebec | B.C. & Yukon | Ontario

IMPACT

$53B contribution to GDP[9]

708,961 jobs sustained in 2011[9]

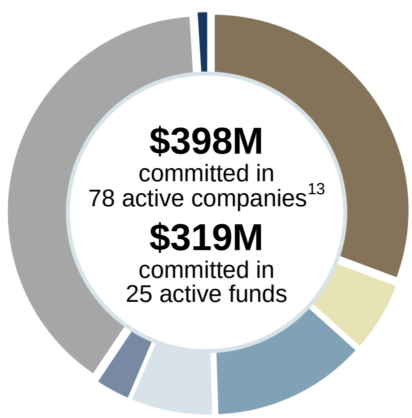
7.6% are start-ups (<2 years)

63% of BDC-financed start-ups survive more than 5 years, vs 51% of all start-ups in Canada[10]

VENTURE CAPITAL

COMMITMENT as at September, 2011

Direct investments:	
Shareholder priorities (Diversified)	29%
Energy/ Clean Tech	6%
Health	12%
Information technology	6%
Indirect investments:	
Go Capital funds[11]	3%
Private independent funds [12]	43%
Strategic Initiatives	1%



IMPACT

each **$1.00** invested by BDC leveraged **$6.99** from external investors

77% of BDC VC's investments were in early stage companies

[9] Based on Statistics Canada input/output model results of direct and indirect economic activity generated by BDC's 2011 Financing Clients
[10] Industry Canada, The State of Entrepreneurship, February 2010
[11] As at April 2011, Go Capital 100% consolidated in BDC, previously not reported
[12] BDC investments in Go Capital no longer reported as BDC Fund Investments
[13] VC portfolio also includes 65 inactive companies with $14 million committed

GOVERNANCE

Within the context of its incorporating and governing legislation, its approved Corporate Plans and specific instructions that it may be given by the Government of Canada from time to time, BDC operates at arm's length from the Government with ultimate accountability to Parliament through the Minister of Industry. An independent Board of Directors, supported by various committees, ensures the highest standard of corporate governance practices; BDC's President and CEO reports to the Board. BDC's internal structure includes the Senior Management Committee (SMC), which ensures that BDC's short-, medium- and long-term strategic objectives are met through the implementation of the Corporate Plan. BDC was recognized favourably for its governance model in a recent World Bank study.[1]

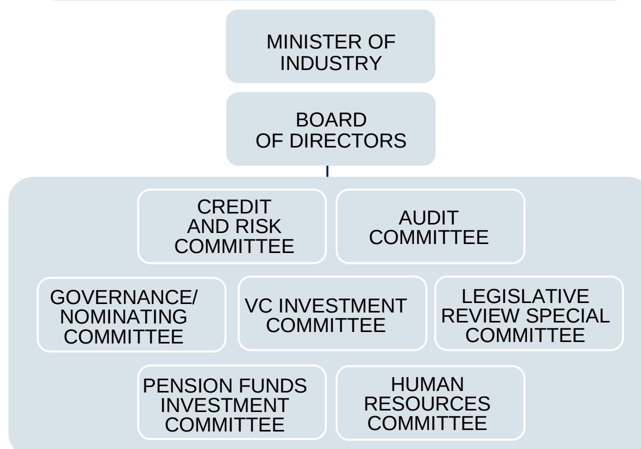
COMPLIANCE

In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians.* The review listed 31 measures for effective governance. BDC meets or exceeds all of these measures.

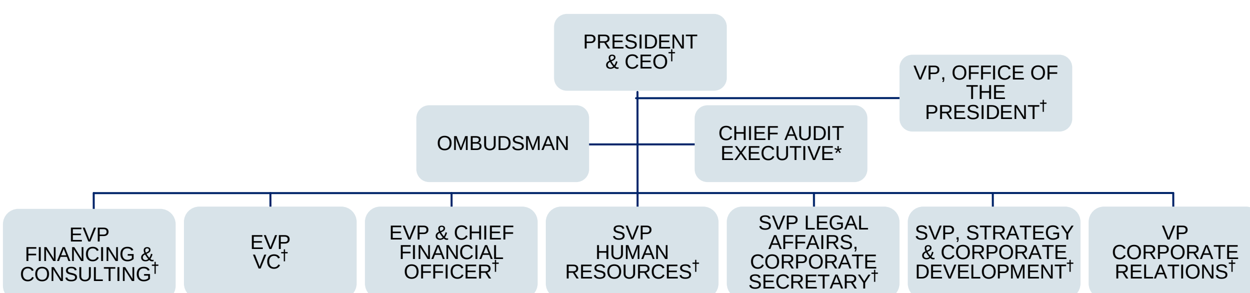
As a federal Crown Corporation, BDC is fully compliant in displaying the "Canada" wordmark in all of its corporate identity applications. BDC respects the *Official Languages Act* and its operations adhere to the regulations and policies implemented by the Treasury Board Secretariat, giving special attention to the economic and social development of minority official language communities.

In addition, BDC is complying with the spirit and intent of the Government's Strategic and Operating Review.

BDC BOARD STRUCTURE

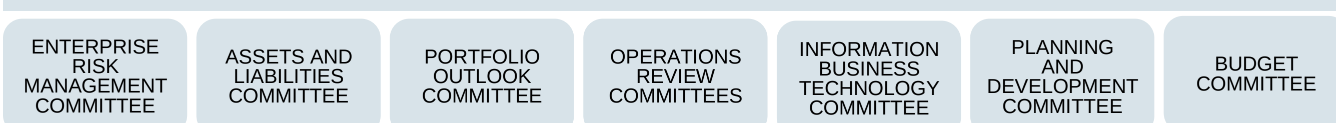


BDC MANAGEMENT STRUCTURE



†Member of the Senior Management Committee
* With direct reporting to the Audit Committee

SENIOR MANAGEMENT COMMITTEE



[1] Rudolph, Heinz P., The World Bank, *State Financial Institutions: Mandates, Governance, and Beyond*, 27 June 2009

OPERATING ENVIRONMENT

Operating Environment

RISING RISKS, SLOWER GROWTH

Fundamentals remain solid in Canada, with strong consumer demand and good financial and fiscal conditions. However, external economic factors are creating uncertainty for SMEs and are expected to affect the overall domestic economy. Most notably, possible contagion effects from the sovereign debt crisis in Western Europe have undermined the stability of the global banking system and created volatility on financial markets.

Impacting Canadian SMEs more directly is the weak recovery occurring in the United States due to the “deleveraging” effect, as households, businesses and governments continue to reduce expenses and debt. Exporting SMEs will continue to be particularly hard hit by these conditions, as will SMEs in the tourism, transportation, manufacturing and construction industries.

Although growth in China and other emerging economies is expected to moderate in response to the slowing growth of advanced economies, it will remain relatively robust. Diversification of export markets will be necessary if Canadian SMEs are to benefit from these new engines of growth.

Commodity prices, specifically energy prices, have declined significantly since the summer of 2011 in response to the deterioration of the global economic outlook. The value of the Canadian currency has stabilized at just under parity, offering some relief to SMEs that export. However, steady demand from emerging market economies and limited increase in supply should keep commodity prices at elevated levels and the Canadian dollar should continue to fluctuate around parity.

PROJECTION FOR GLOBAL ECONOMIC GROWTH

	SHARE OF REAL GLOBAL GDP[1]	PROJECTED GROWTH			
		2010	2011	2012	2013
Canada	2%	3.2%	2.1%	1.9%	2.9%
U.S.	20%	3.0%	1.7%	1.7%	3.3%
Euro Area	15%	1.7%	1.5%	0.2%	1.5%
Japan	6%	4.0%	-0.6%	2.0%	2.5%
China	13%	10.4%	9.1%	8.2%	8.2%
Rest of the world	46%	5.7%	4.3%	3.3%	3.4%
World	100%	5.1%	3.8%	3.1%	3.7%

SOURCE: Bank of Canada

[1]GDP shares are based on IMF estimates of the purchasing-power-parity valuation of country GDPs for 2010. Source: IMF, WEO, September 2011

Economic prospects for SMEs are expected to vary. Firms located in regions that rely on oil and gas or that are concentrated in mining activities face brighter prospects. This is the case for SMEs in Alberta, Saskatchewan and Newfoundland and Labrador.

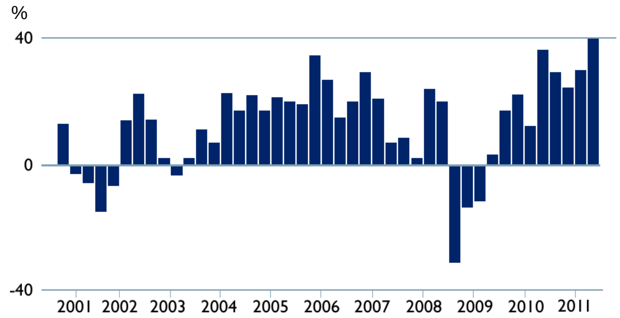
Businesses in non-resource-based industries and those that are more dependent on the U.S. economy may continue to experience a challenging environment.

INVESTMENT PLANS REMAIN POSITIVE

During the fall of 2011, CFIB’s Business Barometer Index showed confidence among SMEs growing, but at a slow pace. The December 2011 barometer showed an increase in confidence to “near normal” levels, with the number of small business owners expecting their business’ performance to be stronger in the next year outnumbering those expecting weaker performance.

The Winter 2012 Business Outlook Survey of the Bank of Canada shows that firms expect to increase investment in machinery and equipment (M&E) over the next year. However, intentions are below the levels reached a year ago due to volatility in financial markets and global economic uncertainty. Healthy corporate profitability and a relatively strong currency should be an incentive for businesses to increase their investments in M&E and ICT. This should have a positive impact on SMEs’ productivity.

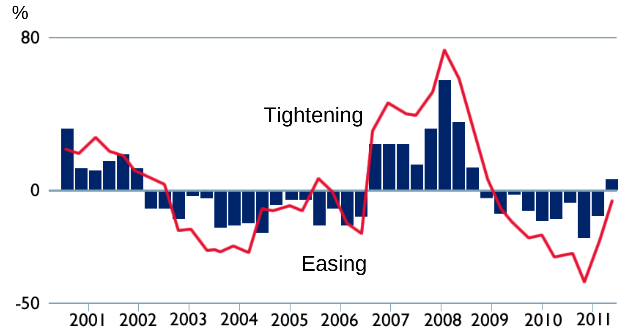
EXPECTED INVESTMENT IN M&E
BALANCE OF OPINION[1]



Higher : 41% Same : 49% Lower : 19%

[1] Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower, or the same as over the past 12 months? % of firms expecting higher investment minus % expecting lower

BUSINESS LENDING CONDITIONS
BALANCE OF OPINION



[2] Weighted % of surveyed financial institutions reporting tightened credit conditions minus the weighted % reporting eased

[3] % of firms reporting tightened credit conditions minus the % reporting eased

FINANCING CONDITIONS EASED, MARKET DEFICIENCIES REMAIN

Low interest rates and increased competition among Canadian financial institutions with healthy balance sheets have created a more favourable financing environment for SMEs. Surveys show that credit conditions have eased since 2010 for firms of all sizes and that approval rates are back to pre-recession levels. However, non-pricing conditions seem to have tightened slightly in the second part of 2011.

A survey undertaken by Industry Canada[2] shows that terms and conditions are not as advantageous as they were prior to the credit crisis. While Canadian banks are expected to be able to meet the new Basel III requirements that will be phased in completely by 2019, the more stringent capital and lending requirements that may result could mean additional difficulty in accessing financing for SMEs, which often represent a higher risk than larger businesses.

Statistics Canada's Financial Data Initiative (FDI) also shows that, even during times when credit is easily available, market deficiencies persist as some SME segments have a harder time accessing financing. This is often the case for start-ups, new international ventures, R&D-intensive firms and firms led by young entrepreneurs.[3]

In addition, firms that want to ramp-up sales often face a "liquidity" trap because they need to pay their suppliers several months before they generate revenues. Access to capital for these firms remains difficult.

While Canadian VC investment remains on track to outpace the previous three years, fundraising remains difficult. This indicates that less capital will be available for investment in future periods.[4]

KEY ECONOMIC CHALLENGES PERSIST

Canadians continue to enjoy a high standard of living relative to other countries, yet this is at risk of being eroded. Productivity and innovation remain the ultimate sources of long-term prosperity, but Canadian businesses lag in productivity and in creating innovative products, services and processes. SMEs must increase their level of innovation by investing more in M&E, ICT and R&D, as well as by rethinking processes, products and markets.

While Canada has a culture that has historically been favourable to business creation, crisis periods often hit the most vulnerable and smaller firms. At the same time, the already small proportion of mid-sized firms in Canada is decreasing, based on Statistics

[2] Industry Canada's Credit Conditions Survey shows that the risk premium and the percentage of SMEs being asked for collateral increased from 2009 to 2010

[3] Statistics Canada, Surveys of Financing of Small and Medium Enterprises, 2000, 2001, 2004 and 2007

[4] Industry Canada, Venture Capital Monitor, Q2 2011

Canada's Business Registry data. Looking ahead, there will also be a deficit of experienced entrepreneurs due to demographic changes. These ecosystem dynamics will have an impact over the planning period.

WHAT THIS MEANS FOR BDC

In summary, the main assumptions for the operating environment are:

> Overall, economic growth will remain tepid in Canada and exposed to external downside risks with variations by region and industry.

> A geographic shift in economic growth is underway and Canadian businesses will need to diversify their markets and broaden their reach to benefit from this shift, notwithstanding a strong Canadian currency.

> Growth in emerging economies will represent increased competition for Canadian SMEs; moreover, persistent lacklustre productivity will need to be countered with innovation.

> While SMEs remain cautious, levels of business investment should increase and favourable credit conditions should support these investments, although deficiencies will persist.

> Entrepreneurs' capacity to grow their firms and ensure their survival will continue to be a challenge.

Given these conditions, it is important for BDC to continue to play its role and increase its response should downside risks materialize.

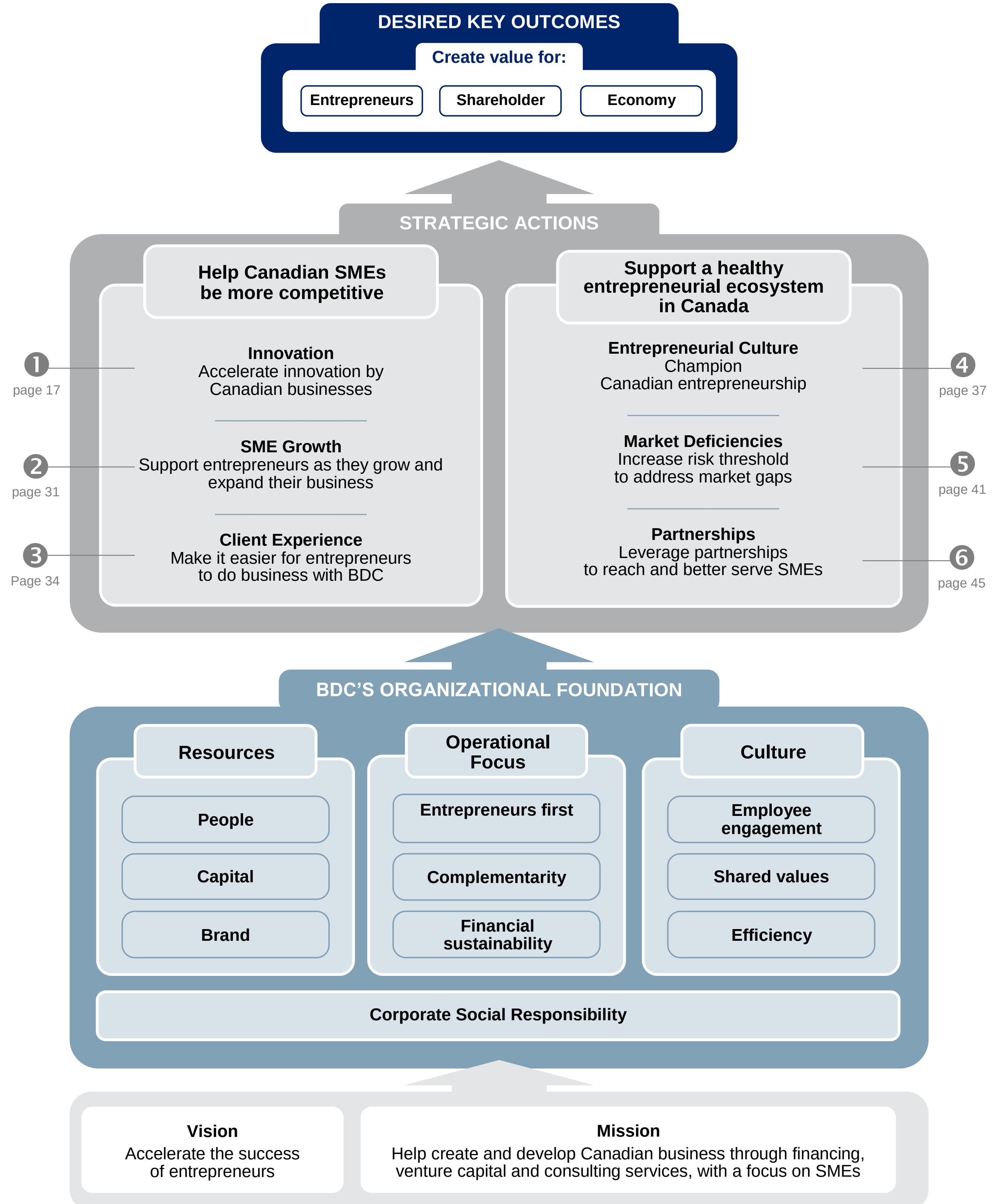
BDC STRATEGY MAP

The strategy map on the following page is the foundation for BDC's Corporate Plan and is based on two key objectives:

Help Canadian SMEs be more competitive

Support a healthy entrepreneurial ecosystem in Canada

The text that follows the strategy map explains the strategic actions that will enable BDC to achieve its objectives. The performance measures described on page 16 will allow BDC to assess the extent to which it has achieved these objectives.


DESIRED KEY OUTCOMES
Create value for:
Entrepreneurs
Shareholder
Economy
STRATEGIC ACTIONS
Help Canadian SMEs be more competitive
1 page 17
Innovation
Accelerate innovation by Canadian businesses
2 page 31
SME Growth
Support entrepreneurs as they grow and expand their business
3 Page 34
Client Experience
Make it easier for entrepreneurs to do business with BDC
Support a healthy entrepreneurial ecosystem in Canada
4 page 37
Entrepreneurial Culture
Champion Canadian entrepreneurship
5 page 41
Market Deficiencies
Increase risk threshold to address market gaps
6 page 45
Partnerships
Leverage partnerships to reach and better serve SMEs
BDC'S ORGANIZATIONAL FOUNDATION
Resources
People
Capital
Brand
Operational Focus
Entrepreneurs first
Complementarity
Financial sustainability
Culture
Employee engagement
Shared values
Efficiency
Corporate Social Responsibility
Vision
Accelerate the success of entrepreneurs
Mission
Help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs

STRATEGIC ACTIONS - PERFORMANCE MEASURES

1 INNOVATION > page 17 Accelerate innovation by Canadian businesses	TARGET 2012	2012 YTD[1]	TARGET 2013
> # of ICT interventions (online web & ICT assessments, Consulting mandates, Financing and Subordinate Financing authorizations)	new	8,622[2]	21,000

2 SME GROWTH > page 31 Support entrepreneurs as they grow and expand their business	TARGET 2012	2012 YTD[1]	TARGET 2013
> Revenue growth of BDC clients (% difference between BDC clients and comparable businesses one year after receiving BDC support)	new	N/A	8.0%
> Venture Capital return of capital (ROC)	0.98	0.99	1.00

3 CLIENT EXPERIENCE > page 34 Make it easier for entrepreneurs to do business with BDC	TARGET 2012	2012 YTD[1]	TARGET 2013
> Client Value Index (Financing and Consulting)	95	102	96

4 ENTREPRENEURIAL CULTURE > page 37 Champion Canadian entrepreneurship	TARGET 2012	2012 YTD[1]	TARGET 2013
> # of authorizations to new businesses (≤2 years) (Financing and Subordinate Financing)	950	571	1,100
> % of BDC-financed start-ups that survive five years	new	63%[3]	65%
> # of small business clients in BDC's portfolio (<20 employees) (Financing and Subordinate Financing)	new	20,948	21,000

5 MARKET DEFICIENCIES > page 41 Increase risk threshold to address market gaps	TARGET 2012	2012 YTD[1]	TARGET 2013
> % of clients that agree that BDC offers products and services that are complementary to those offered by private-sector financial institutions	new	82%[4]	85%

6 PARTNERSHIPS > page 45 Leverage partnerships to reach and better serve SMEs	TARGET 2012	2012 YTD[1]	TARGET 2013
> # of transactions authorized with partners (syndications, pari passu, loan referrals and alliances)	new	N/A	1,650

Note: BDC strives to measure its impact on Canadian entrepreneurs. As a result, its performance measures continue to evolve to properly capture public policy impacts.

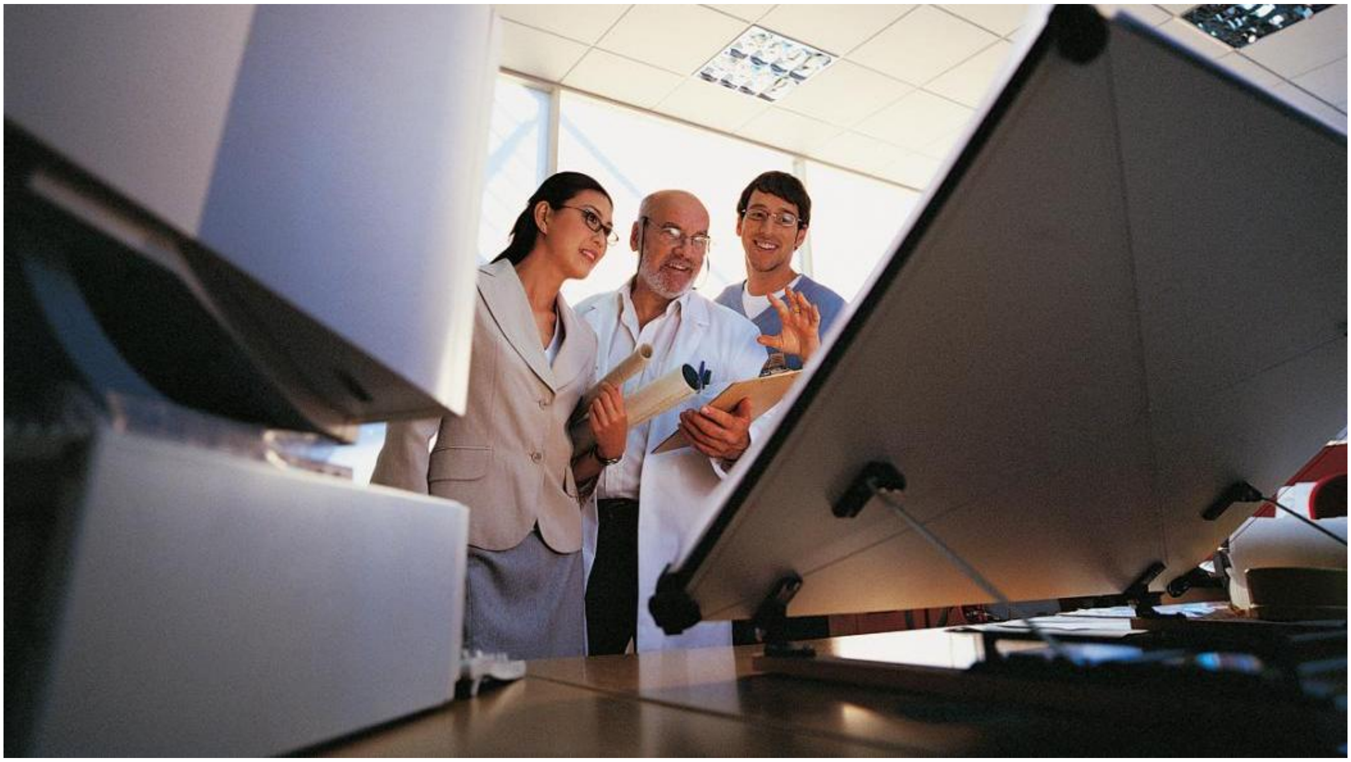
[1] Unless otherwise noted, 2012 YTD numbers are as at September 30, 2011

[2] As at December 2011

[3] FY 2011

[4] Based on June 13, 2011 report

➊ INNOVATION



STRATEGIC ACTIONS

Help Canadian SMEs be more competitive

Innovation
Accelerate innovation by Canadian businesses

SME Growth
Support entrepreneurs as they grow and expand their business

Client Experience
Make it easier for entrepreneurs to do business with BDC

Support a healthy entrepreneurial ecosystem in Canada

Entrepreneurial Culture
Champion Canadian entrepreneurship

Market deficiencies
Increase risk threshold to address market gaps

Partnerships
Leverage partnerships to reach and better serve SMEs

> BDC is encouraging incremental innovation among SMEs through its ICT strategy, and supporting radical innovation with its investments in VC.

❶ Innovation — Accelerate innovation by Canadian businesses

Innovation is key to the success of any business, regardless of sector, size or stage of development. Whether it is a better process, product, service or sales technique, innovation is what keeps entrepreneurs one step ahead of the competition and enables them to be leaders in the marketplace. Indeed, innovative entrepreneurs fuel the Canadian economy.

Innovation is also linked to productivity, which underlies economic growth and standard of living. Canada's fundamental challenge is that it is not as productive as it should be, relative to its peers. One of the reasons is weak business innovation.

Innovation can be radical, which generally involves the creation of something that did not exist before, often fuelled by R&D breakthroughs and backed by venture capital (VC) investments. Or, innovation can be incremental, involving improvements to existing products, services, processes or market development.

BDC supports innovation through financing, consulting and VC.

BDC Consulting has helped thousands of entrepreneurs through lean manufacturing

BDC'S ICT STRATEGY

AWARENESS	CONSIDERATION	ADOPTION
> Tech Smart –e-Book –Ask a PRO –One pagers –Success stories/ testimonials –Website assessment –ICT assessment > Marketing campaign > External webinar > Speaking engagements	> Website diagnostic > ICT essentials > ICT diagnostic > Online sale	> Internet Strategy > System Selection > Social Media[1] > e-Marketing[1] > ICT Financing > Other solutions being considered

[1] Solutions such as e-Marketing and Social Media have been delayed pending the resolution of legal issues

diagnostics, quality improvements, ISO certification and go-to market strategies.

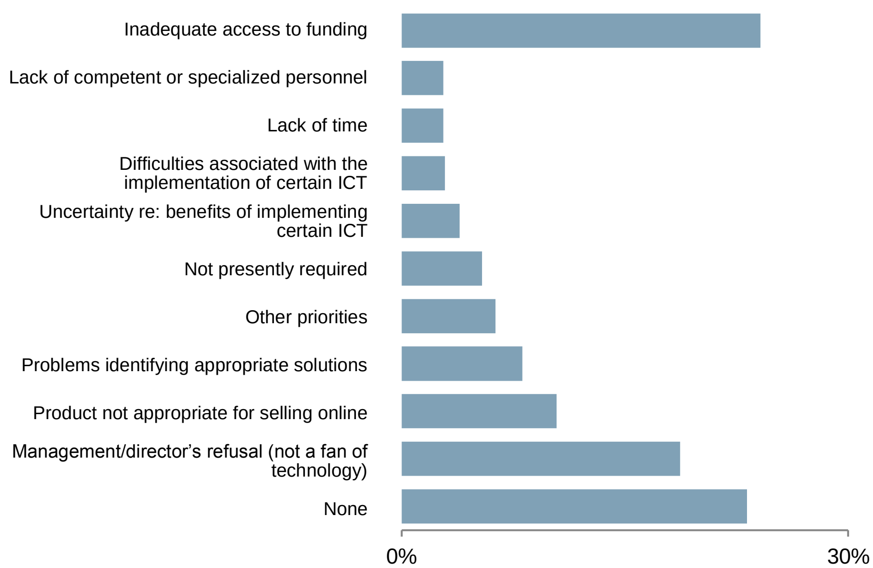
INCREMENTAL INNOVATION

Studies show that ICT is a key driver of productivity, yet Canadian firms generally under-invest in this area.

According to the Centre for the Study of Living Standards, Canadian ICT investment per worker is just 60 percent of the U.S. level. In fact, Canada has a gap across almost all industry sectors, with business sector average investment intensity of 48 percent of the U.S. level.

A recent national survey conducted by CEFRIO, a Quebec-based research centre that explores how organizations can innovate using ICT, and

MAIN FACTORS PREVENTING CANADIAN SMEs FROM ADOPTING ICT



SOURCE: *Use of ICT by Canadian SMEs*, CEFRIO, October 2011 sponsored by BDC showed that SMEs are well connected to the Internet, but are not taking full advantage of the web and ICT to increase their productivity and revenues. Other findings included:

- Two thirds (69.8 percent) of SMEs have websites, but only 8.2 percent have adapted them for use on mobile platforms. Selling online is not very popular with SMEs - only 17.9 percent of those with websites engage in it
- SMEs connected to the Internet have not yet, as a general rule, leveraged social network applications
- Few companies use management software packages
- ICT is better rooted in medium-sized SMEs, i.e., those with 100 to 499 employees, and in SMEs in the manufacturing sector

In support of Canada's Digital Economy Strategy, BDC was asked by the Government to develop and begin implementing an ICT strategy to help entrepreneurs learn more about ICT and connect them to the products, services and providers that can help them incorporate ICT into their operations.

In designing its ICT strategy, BDC discovered that solutions existing in the marketplace were mainly geared to large companies, or were too dispersed for SMEs to find the time to fully take advantage of them.

In response, and based on surveys conducted with Canadian SMEs, BDC's ICT strategy has been designed to focus on:

- Building general awareness of the benefits of ICT
- Raising ICT considerations when reviewing financing requests
- Helping entrepreneurs evaluate their level of ICT integration
- Providing access to consulting services
- Providing financing for ICT

By filling market gaps when it comes to ICT services for SMEs, BDC is also working to create long-term demand in the market.

Awareness

To raise awareness and understanding of ICT among SMEs, BDC launched SmartTech on BDC.ca, an online resource centre offering a wide range of technology tools for small businesses.

Through different modules, entrepreneurs can access tools and services to learn more about the products available in the marketplace, identify technologies most useful to their business, and get support in implementing them.

SmartTech includes tools such as:

- e-Book – highlighting how Canadian businesses have benefited from ICT
- Ask a Pro – providing "how-to" articles and Q&As on ICT solutions related to areas such as sales and customer management, accounting and finance, and human resources
- One-pagers – demonstrating how incorporating technology into a business does not have to be complicated or costly
- Free online website assessment – to assess the effectiveness of an entrepreneur's website
- Free online ICT assessment – generates a report on the firm's use of ICT within minutes, based on responses to a 40-question survey

Consideration

To assist businesses as they decide how best to integrate ICT into their business, BDC offers consulting services that include:

- Website diagnostic – more in-depth than the website assessment, this tool provides a professional evaluation of the usability of the SME's current site and makes recommendations for clients whose sites are under-performing
- ICT diagnostic – provides a professional evaluation of an SME's current level of ICT adoption and highlights areas that could be improved
- ICT essentials – explores, in a group setting, how SMEs can make strategic decisions about technology and how to manage technology resources to full advantage

BDC'S ICT STRATEGY: WHERE ARE WE?

	AWARENESS	CONSIDERATION	ADOPTION
Phase 1 – May 2011	Launch of Smart Tech		
Phase 2 – Oct 2011		Launch of products and $200M for ICT	
Phase 3 – Ongoing	Deepen internal capacity and broaden reach to SMEs		

Adoption

Once entrepreneurs have learned more about ICT and considered their options, BDC is ready to help put their plans into action through new consulting solutions and directed financing.

BDC's Internet strategy service helps businesses set concrete objectives, define the right online strategies, and develop a plan to successfully promote their website and fully leverage the Internet. It also assists them with system selection, or choosing the best provider for their needs.

While successful efficiency and growth projects can take businesses to the next level, they cannot always be implemented with the working capital businesses have on hand.

In October 2011, BDC announced that it had set aside $200 million for loans to help entrepreneurs with ICT projects and purchases including hardware, software and consulting services such as Internet solutions to boost online sales. Both existing BDC clients and new clients may apply for a loan from this initiative. Those seeking loans of less than $50,000 can submit applications quickly and easily online. Pre-qualified loans for existing clients have been extended and do not require a personal guarantee, meaning less paper and less process for the entrepreneur.

Early Results

BDC launched Phase I of its ICT strategy in May 2011, which worked to increase awareness of the benefits of ICT adoption among SMEs. Phase II involved the public launch of the strategy in October 2011.

Early indicators show that BDC's new offerings are being well received. Since the launch in October 2011 to December 31, 2011, BDC's SmartTech site had attracted more than 15,800 visitors, 8,145 web assessments had been run, and more than 275 ICT assessments completed. Out of the $200 million, 163 loans had been authorized for a total of about $20 million. In addition, over the same time period, BDC has made $50 million in loans to ICT firms.

Going Forward

Phase III will see BDC start to market its ICT services to a broader range of businesses and continue to offer training to enable its employees to identify and support client ICT needs.

RADICAL INNOVATION

Radical innovation is important to the Canadian economy as it brings significant new technologies to market, often based on R&D.

In Canada, the problem many have noted is that we are not effectively:

- Commercializing innovations by bringing them to the marketplace
- Growing our emerging companies so that they are able to commercialize their innovations
- Retaining the maximum benefits and jobs that commercialization of innovation can generate

Companies that pursue technology innovation rely largely on VC to achieve these goals.

BDC VC offers patient investment and value-added support to technology firms at all stages of development. It also aims to play an important supportive role in the VC market in Canada, which in recent years has experienced a significant downturn, thus hampering the ability of high-potential firms to start up and expand.

The VC Market

The environment for VC remains challenging. While investment levels have increased, fundraising remains difficult. Low levels of capital ultimately will constrain the level of investment that can occur in the future.

VC Fundraising

Canadian VC fundraising was particularly weak in 2010. New capital commitments to VC funds totalled $819 million, down 24 percent from the $1.1 billion committed the year before and the lowest per-annum level in the Canadian market in 16 years[5].

While activity in the first half of 2011 was also sluggish, it gained traction in the third quarter of 2011, with new commitments totalling $365 million, up from $47 million in Q3 2010.

Consequently, funds raised at the end of the first nine months of 2011 totalled $739 million, tracking activity from the previous year, when $741 million was raised[6].

[5] Source: Canada's Venture Capital Market 2010, Prepared by Thomson Reuters for the Canadian Venture Capital

[6] http://www.cvca.ca/files/News/CVCA_Q3_2011_Venture_Press_Release_Final.pdf

LP syndicates are limited by a number of constraints:

> Lack of LP money means that most, if not all, LPs need to agree to invest in a fund or it will not raise enough capital
> Many LPs favour investments that support their respective provincial priorities
> LPs diversify their risk over a number of funds and so are willing to invest only a certain amount in each fund; this results in small funds as there are few LPs in Canada

These factors:

> Restrict BDC investment to funds in which most other LPs agree to invest.

Nonetheless, the Canadian capital pool of limited partnerships (LPs) (for investment in general partnerships) is at an all-time low. Most LPs are government-backed, regionally based investors. BDC is the most active national LP. Some estimate the delta between the funds' "ask" and the capital available at as much as $3 billion.

VC Investing

After a comparatively slow first half of 2011 for VC investing, VC activity saw gains in the third quarter of 2011, with substantial year-over-year growth. VCs invested $388 million between July and September 2011, up 51 percent from 2010.

As a result of Q3 activity, VC deal-making saw considerable year-to-date expansion. Dollar flows totalled $1.1 billion at the end of September 2011, up 30 percent from the $882 million invested during the first nine months of 2010[7].

The Q3 2011 results should, however, be interpreted with caution. Canada still has a long way to go to match market conditions in other jurisdictions. Innovative Canadian firms still receive only 40 percent of the dollars going to their counterparts in the U.S.[8]

VC- BACKED EXITS

	IPO EXITS	M&A EXITS
2003	2	24
2004	14	39
2005	9	45
2006	7	29
2007	12	38
2008	1	22
2009	1	24
2010	1	30
2011 (9 months)	2	16

Source: Thomson Reuters 2011 Q3 data

Exit markets continue to be difficult, with only two initial public offerings (IPOs) in the first nine months of 2011 and generally scarce merger and acquisition (M&A) activity, especially for smaller deals. BDC participated in some of the more successful exits of the year.

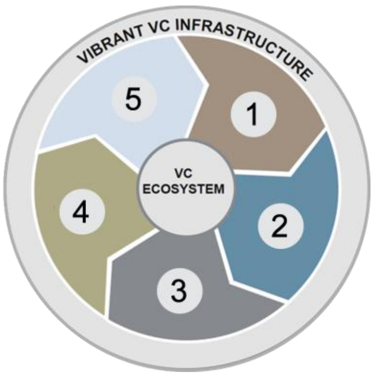
Industry Dynamics

A vibrant VC ecosystem depends on the smooth functioning of each element of the "virtuous" VC industry cycle.

[7] Ibid.

[8] Ibid.

VC ECOSYSTEM



	THE DREAM	THE REALITY
1	Talented entrepreneurs and management start high-potential companies	Canada has some, but not enough
2	Skilled VCs/angels direct funds to best companies	While improving, Canadian angel networks are not yet as sophisticated as elsewhere, and Canada is still short of sophisticated, globally connected VCs.
3	Best companies grow through additional financing and VC support	Too many small investments, the result of too many small funds, so entrepreneurs: a. Do not necessarily get needed mentoring; b. Spend too much time chasing money instead of building companies
4	Attractive exit options bring strong returns	Canadian VC-backed companies have lower exit valuations than in other countries
5	Sophisticated LPs allocate appropriate capital to the VC Industry	Institutional investors have largely abandoned the asset class because of poor returns

Key to restoring the efficacy of Canadian VC as an asset class will be to bring the industry, as a whole, to a state of profitability. This is critical, not only to the industry's overall health and long-term sustainability, but also to attract more investment capital from private investors, both domestically and internationally.

The Canadian VC industry remains sub-scale, with smaller funds and smaller investments and deals than in the U.S

The report from the federal R&D Review Panel highlights this gap and suggests that BDC be provided with new capital to support the development of larger-scale, later-stage venture capital funds and growth equity funds in support of the private venture capital and equity industry. These funds would specialize in deal sizes of $10 million and above. The report also recommends that BDC play a larger role at the start-up stage, enhancing its ability to invest alongside angel investor groups.

Nonetheless, looking ahead, BDC believes there is reason for optimism:

- More and more universities are now concerned about commercialization of innovation and the role of VC
- There seems to be a greater focus on developing more and increasingly sophisticated accelerators
- While still fragmented, the angel community seems to be becoming more organized
- While there is still a shortage of seed stage money, some governments are now focused on capital for this stage of development
- General partnerships (GPs) are becoming more focused and knowledgeable about how to help their investee companies, including tapping into international networks
- There are "green shoots" in the exit markets, particularly in M&A; for example, the sale of Radian 6 and Q1 Labs, both BDC-backed companies
- LPs recognize the importance of funding at-scale GPs, in line with their industry sector and focus
- The limited available capital is flowing to the highest quality GPs

JENKINS REPORT ON INNOVATION IN CANADA: HIGHLIGHTS

1. The creation of an Industrial Research and Innovation Council (IRIC) to deliver the federal government's business innovation programs

There are currently more than 60 programs across 17 different government departments. The creation of an arm's-length funding and delivery agency – the Industrial Research and Innovation Council – would streamline the process with the development of a common application portal and service to help businesses find the right programs for their needs (a "concierge").

2. Simplification of the tax credit system used to support small and medium-sized businesses

The current Scientific Research and Experimental Development (SR&ED) program is unnecessarily complicated; many small businesses hire consultants just to submit an application. This discourages eligible businesses from applying and may cost successful small SR&ED recipients a good portion of the credit received. By basing the SR&ED credit solely on labour costs, the panel believes SR&ED will be more effective.

3. Make business innovation one of the core objectives of procurement

The federal government spends billions of dollars every year, but it ranks poorly internationally when it comes to using that purchasing power to encourage Canadian innovation. The encouragement of home-grown innovation as a part of government procurement is recommended.

4. Transform the institutes of the National Research Council into a series of large-scale, collaborative centres involving business, universities and the provinces.

The NRC was created during World War I to kick-start Canada's research capacity. It has a long and storied history of discoveries and innovation, including numerous commercial spin-offs. While the NRC continues to do good work, research and commercialization activity in Canada has grown immensely. In this new context, the NRC can play a unique role, linking its large-scale, long-term research activity with the academic and business communities. The panel recommends evolving NRC institutes, consistent with the current strategic direction, into not-for-profit centres run with stakeholders, and incorporating its public policy research into other departments.

5. Help high-growth innovative firms access the risk capital they need through the Business Development Bank of Canada (BDC)

Innovative Canadian companies face real challenges in getting start-up funding and late-stage risk capital financing. In many cases, the gap is filled by foreign investors, which means that commercial benefits and intellectual property end up leaving the country. Directing the BDC to work with angel investor groups and develop late-stage risk capital/growth equity funds will pay dividends.

5.1 Start-up stage – Direct BDC to allocate a larger proportion of its portfolio to start-up stage financing, preferably in the form of a "sidecar" fund with angel investor groups.

5.2 Late stage – Provide BDC with new capital to support the development of larger-scale, later-stage venture capital funds and growth equity funds in support of the private venture capital and equity industry. These funds would specialize in deal sizes of $10 million and above that are managed by the private sector and subject to appropriate governance practices.

Whole-of-Government Leadership
Innovation is the principal source of productivity growth in the long run, and thus lies at the heart of Canada's future prosperity. But innovation far transcends the application of science and technology and R&D. A responsibility to foster innovation cuts across many functions of government and therefore requires a system-wide perspective and whole-of-government priority. This will require restructuring the governance of the government's business innovation agenda, while developing a shared and cooperative approach with provincial and business leaders.

6. Establish a clear federal voice for innovation and work with the provinces to improve coordination.

Currently, there is a lack of government-wide clarity when it comes to innovation. Responsibility is spread across a number of cabinet portfolios. The Prime Minister should assign responsibility for innovation to a single minister, supported by a whole-of-government Innovation Advisory Committee, evolved from the current Science Technology and Innovation Council (STIC), composed of external stakeholders, who would work with the provincial and territorial governments to initiate a collaborative dialogue to improve coordination and impact.

SOURCE : http://rd-review.ca/eic/site/033.nsf/eng/00294.html

BDC VC STRATEGY			
DIRECT INVESTMENT		INDIRECT INVESTMENT	STRATEGIC INITIATIVES AND INVESTMENTS
Build leading Canadian technology businesses	**Manage and grow diversified portfolio**	**Build and support world-class Canadian venture capitalists**	**Help stimulate VC and innovation ecosystems**
> Develop focused "internal GPs" using international industry best practices to efficiently identify, finance and develop leading businesses > Provide significant value-added support to portfolio companies (beyond capital) > Spin out[1] some internal GPs in the future	> Develop diversified portfolio companies to their full potential > Be responsive to public policy objectives with special purpose investment vehicles (e.g., FedDev)	> Catalyze development of emerging top-tier GPs in Canada > Support existing leading Canadian GPs > Attract top-tier foreign GPs to Canada on opportunis-tic basis	> Develop key players, including entrepreneurs and angel groups > Fill financing gaps, for example, bridge financing in seed/early stage > Play role of industry and ecosystem facilitator, including developing strategic partnerships > Encourage global connectivity, including creating a world-class network for the BDC portfolio
Attract, develop and retain high-potential investment professionals			
Support objectives with a flexible and responsive organization and an entrepreneurial VC culture			

[1] BDC would consider spinning out its internal GPs once they have demonstrated fund performance that would enable them to raise money from outside LPs to create their next fund. This would be one indicator that Canada is developing the ability to create performing at-scale venture capital funds.

BDC's Strategic Objectives

With an average five percent of dollars invested in the Canadian VC market (15 percent of transactions), BDC VC supports firms from early to later stages of growth. It has ranked first or second as the most active technology VC in Canada in each of the past few years.

Last year, BDC completed an extensive review of the national VC industry and its own VC operations. Based on this review, BDC established a new approach, taking into account industry challenges, to build on BDC's existing role and better align it with the private sector.

In this light, BDC VC's strategic objectives are to:

> Invest in and support BDC's investee companies to help build leading Canadian technology companies in digital technologies and ICT; health care (including biotechnology and medical devices); energy and clean / environmental technologies; other high-growth sectors.

> Maximize the exit value of BDC's existing VC portfolio and remain responsive to specific Shareholder requests (Diversified Portfolio).

> Build and sustain world-class Canadian venture capitalists by investing in high-performing fund managers.

> Develop strategic initiatives to reinforce key areas in the VC and innovation ecosystem, including entrepreneur development.

> Help demonstrate the viability of the Canadian VC industry in terms of profitability at the investment level (business / enterprise), the asset class level (venture funds) and the LP level.

BDC VC has made good progress toward implementing its strategy and realizing BDC VC's mission of helping Canadian entrepreneurs create and grow successful, innovative technology businesses.

Progress to date includes:

- A new BDC governance structure has been implemented
- The VC reorganization has been completed
- A new Strategic Initiatives and Investments group has been created and launched, with a mandate to help stimulate the VC and innovation ecosystems:
  - A strategy for supporting start-up accelerators that has been approved by BDC's VC Investment Committee
  - Investments in three Accelerator Funds have been approved: GrowLabs (Vancouver), Real Ventures (Montreal); and Extreme Startups (Toronto)
  - A seed / early stage indirect investment framework has been established
- BDC was the most active single source of VC financing in Canada across all sectors, even in a difficult investing environment, with 12 new deals in fiscal 2011
- As evidence of "green shoots", BDC was an early investor in the two biggest Canadian VC exits in 2011: Radian 6 and Q1 Labs. Radian 6 won the Deal of the Year award from the Canadian Venture Capital Association (CVCA)
- BDC is an investor in 22 funds. Its largest investment is in the Tandem Expansion fund, which is progressing well, with seven investments completed to September 2011. The portfolio is well balanced with investments across the country in three key sectors (IT, Communications and Clean Energy)

Direct investment

Internal GPs

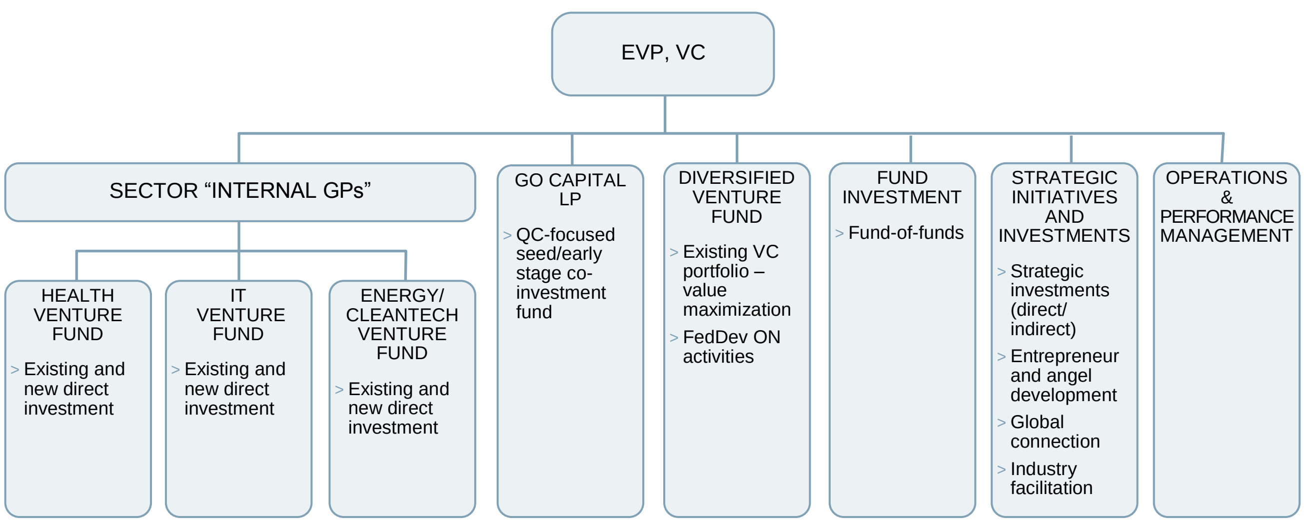
BDC has three funds focused on early stage investing and committed to the company's full venture lifecycle: IT Venture Fund, Energy / Cleantech Venture Fund, Health Venture Fund.

The three GPs have a similar investment focus:

- Access to high-quality deal flow
- Early entry
- Significant commitment and ownership

Each of the GPs has been "seeded" with promising investments from the legacy portfolio that meet the objectives of the respective fund strategies.

NEW BDC VC STRUCTURE



EXAMPLES OF RECENT VC EXITS

radian6

Overview

- Radian6 Technologies, Inc. provides social media monitoring and analysis solutions for marketing, communications, public relations, and customer support professionals.
- Its automated solution enables companies / users to monitor and analyze various social media tools, such as blogs, forums, wikis, and microblogging services to allow them to track real-time conversations regarding their product and brand.
- The company was founded in 2006 and is based in Fredericton, N.B., Canada.

Transaction

- CVCA's 'Deal of the Year Award' for 2011
- In May 2011 Salesforce.com (NYSE:CRM) acquired Radian6 for approximately US$276 million in cash and US$50 million in stock, net of cash acquired.
- The company has grown its employee base to several hundred and continues to serve its 2,400 customers from offices in New Brunswick and Nova Scotia.

BDC's role

- BDC was a syndicate partner that invested in Radian6 in the first institutional round of financing in 2008. Co-investors included Summerhill Venture Partners and BrightSpark Ventures.

Q1 Labs®
Total Security Intelligence | An IBM Company

Overview

- Q1 Labs software collects and analyzes information from hundreds of sources across an organization such as the network, applications, user activity, mobile endpoints, including both cloud-based and on-premise sources. Its security information and event management (SIEM) software also helps IT staff and auditors manage the tracking of security incidents and model risk to better protect customers, while giving executives insight into the security and risk posture of the organization.
- Q1 Labs has more than 1,800 clients globally, including healthcare providers, energy firms, retail organizations, utility companies, financial institutions, government agencies, educational institutions, and wireless service providers.
- The company was founded in 2001 and is based in Fredericton, N.B., Canada.

Transaction

- Although the transaction size has not been publicly disclosed, it represents the third largest exit in BDC VC history and the third largest software M&A exit in Canada since the year 2000.Following the close of the acquisition, Q1 Labs will join the newly-formed IBM Security Systems division, representing the world's most comprehensive security portfolio.
- The new division will target a $94 billion opportunity in security software and services, which has a nearly 12 percent compound annual growth rate, according to IBM estimates.

BDC's role

- BDC was the first Canadian institutional investor in Q1 Labs and led this initial transaction in 2003. BDC VC was the largest Canadian investor and co-invested with top tier funds, Menlo Ventures, Polaris Ventures and Globespan

The Diversified Portfolio

Currently, the Diversified Venture Fund consists of 53 companies, with approximately $200 million committed capital, plus management of FedDev-related investments.

The age of companies ranges from one to 14 years (50 percent are from six to nine years). While approximately one-third will likely be sold within two years, it will take three to five years to maximize value in the balance of portfolio companies.

This fund plans to invest an additional $30 million to maximize value potential and take the companies to an exit. The investee companies are from ICT, life science (drugs); medical devices; and energy, electronics, environment and materials (EEEM).

BDC has also strengthened its partnership with FedDev in Ontario with a $50-million injection of capital in fiscal 2010. Activities have included:

- six direct investments with a total commitment of $35.6 million
- one new fund investment closed for $10.3 million, with additional Ontario-based funds in process of authorization

Indirect investment

As a nationally focused LP, BDC has an opportunity to play an important role in the LP landscape, in terms of attracting institutional LPs back into the market.

Based on its analysis of the market, BDC VC has established three objectives for its indirect investment strategy:

- Support existing leading Canadian GPs
- Support the development of emerging top-tier GPs in Canada
- Attract top-tier foreign GPs to Canada

Over the planning period, BDC VC's indirect strategy will be to increase the number of "at-scale" GPs in Canada.

GO Capital

GO Capital is a $50-million, Quebec-based seed stage Technology Fund managed by BDC.

Started in November 2006, the fund targets pre-revenue companies (seed and pre-seed), diversified by technology sector and limited to Quebec. The capital model enables BDC and GO to match their investments dollar-for-dollar.

GO Capital's activities have included eight investments ($15.7 million disbursed or committed), 20 transactions (including follow-on investments) and two exits year-to-date.

Strategic Initiatives and Investments

BDC's innovation mandate includes ensuring that BDC VC leads in stimulating the VC and innovation ecosystems. The Strategic Initiatives and Investments (SII) group is a new team within BDC VC tasked to execute on this mandate through new and innovative initiatives. SII will act as a connector and catalyst to attract corporate and private-sector investment to the early stage segment of the market.

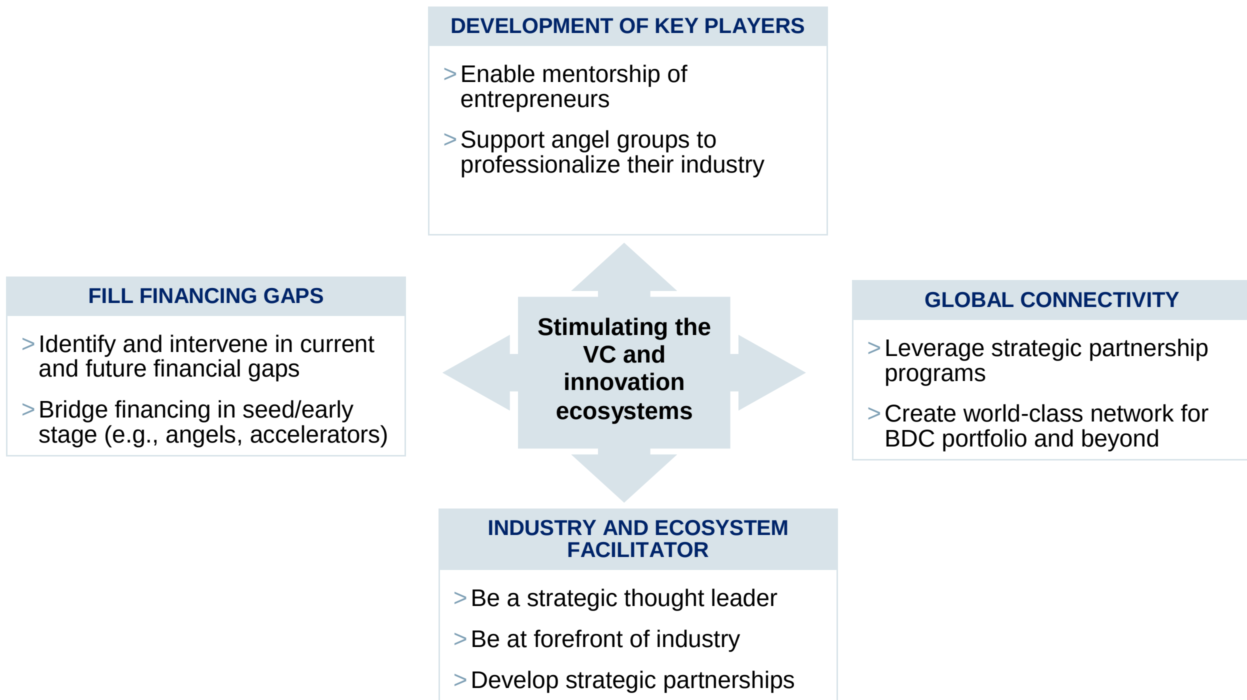
SII has four objectives:

- Fill financing gaps (particularly seed and early stage)
- Develop key players, with a focus on angels and entrepreneurs
- Help establish global connectivity for BDC portfolio firms and Canadian tech firms in general
- Act as an industry and VC investment community facilitator

These four objectives are interconnected. Whether making a strategic investment or supporting a VC or entrepreneur initiative, SII's emphasis is on backing high-quality teams capable of addressing several of these objectives simultaneously.

1. Fill financing gaps

SII's investment activities are intended to bridge the gap between early stage (angels, accelerators) and growth capital, with a bias toward indirect investment. SII is guided by well-defined investment criteria that take into account:



- regional differences across Canada
- the need to provide structured mentorship for entrepreneurs

For example, an innovative financial instrument was developed to bridge the seed/early stage financing gap via convertible note.

2. Development of key players

A new accelerator investment strategy was developed and approved by BDC's Board of Directors to help back Canadian accelerators.

To date, three investments have been made, Real Ventures/ FounderFuel (Montreal), GrowLab Ventures (Vancouver), and Extreme Startups (Toronto).

During the planning period, investments will comply with the following criteria:

- Alignment with BDC SII objectives (entrepreneur development, angel development, global connectivity, industry facilitation)
- Strong private-sector backing with a proven track record of growing companies that involves a well-aligned investment syndicate capable of providing follow-on funding and leverages private-sector funding (angels, super-angels, strategic corporates)
- Stage of investment: must have seed / early stage focus
- Synergy with BDC VC direct and indirect strategic investment along with BDC involvement, such as program operation (mentorship) and governance (board representation)

In terms of angel development, BDC VC has entered into a strategic partnership with the National Angel Capital Organization (NACO) and is sponsoring and actively working with NACO's angel professional development and standards working group.

3. Global connectivity

The group created a strategic alliance with C100, which is comprised of select Canadian entrepreneurs based outside Canada, primarily in Silicon Valley, including executives of leading technology companies, experienced start-up entrepreneurs and VC investors. C100 members leverage their collective experience, expertise and relationships to mentor and grow a new generation of successful Canadian-led technology companies.

C100 charter members include top executives of companies such as Apple, Cisco, EA, eBay, Facebook, Google, Microsoft and Oracle and venture investors representing more than $8 billion in capital.

C100 has met with much success and is expanding to New York City and London.

BDC is one of three sponsors of this group and will continue to play a leadership role over the planning period.

4. Industry and eco-system facilitator

The group has strengthened relationships with strategic partners and key stakeholders across Canada. For example, as noted above, relationships have been established with NACO and Anges Quebec.

The objective of the relationship with angel groups is to organize a critical mass of investors. By dedicating a new business line to supporting angel investment, BDC believes it can attract more corporate investment and leverage its expertise to generate better deal flow.

Levels of investment for direct, indirect and SII are detailed starting on page 54.

EXAMPLES OF BDC VC ACCELERATOR INVESTMENTS

GrowLab
ACCELERATE YOUR START-UP IN VANCOUVER. APPLY TO GROWLAB

Vancouver

Overview

> GrowLab is a Vancouver-based start-up accelerator providing early stage digital media technology companies with seed funding, office space and four months of mentorship through a global network of successful start-up veterans.

> Companies can receive up to $25,000 in seed funding, four months of mentorship, free office space and the opportunity to pitch investors at the end of the program for follow-on funding. The program runs in Vancouver for the first three months; the fourth month is in Silicon Valley. Currently, the program runs twice per year, with five companies participating in each cohort.

> GrowLab has attracted funding from angel investors as well as institutional investors, including BDC VC, iNovia Capital and BlackBerry Partners Fund.

> The goal is to run two cohorts per year with five companies each.

Current results

> Out of more than 300 applicants, five companies were chosen for the first cohort, which started in August 2011 and finished in November 2011 with an inaugural Demo Day.

> All five companies completed the accelerator program and are in the process of raising follow-on capital from angels and other early stage investors.

BDC's role

> BDC VC was a lead investor in the GrowLab accelerator program, investing $500,000.

> BDC VC established a strategic partnership with GrowLab, whereby BDC will offer certain graduates of the accelerator program up to $150,000 in follow-on financing (convertible debt) to fund their immediate action plans. BDC VC expects to extend this offer to all five graduates of the first cohort.

FounderFuel

Montreal

Overview

> FounderFuel is an early stage IT accelerator program created by the team behind Real Ventures, a Montreal-based $50-million seed-stage venture fund investing in web, mobile and digital media start-ups.

> Teams selected to join the program are surrounded by like-minded entrepreneurs for 12 weeks. During this time, they develop their business within an ecosystem of entrepreneurs, executives, VCs and angels and through workshops, presentations and input from mentors.

> Each team in the program receives a $10,000 investment, plus an additional $5,000 per co-founder.

> Real Ventures, which directly funds FounderFuel, has received institutional investment from VCs in Quebec, including BDC VC, as well as $12 million from angel investors.

Current results

> Nine companies completed the inaugural program, which started in August 2011 and finished in November 2011. Two of the nine have secured seed funding from strategic partners, local VCs/angels and Real Ventures.

> More than 600 people attended the first FounderFuel Demo Day in November 2011, including more than 120 investors from Canada and the U.S. and more than 400 people from the local start-up community.

> The program takes place twice a year, with up to 10 companies participating in each cohort.

BDC's role

> BDC VC invested $5 million as an institutional LP in Real Ventures, which funds FounderFuel. This capital permits Real Ventures/FounderFuel to invest outside Quebec.

> BDC VC investment professionals also acted as mentors to cohort participants.

BDC VC is helping to establish Notman House, the home of FounderFuel, as a centre for collaborative entrepreneurship in Montreal.

❷ SME GROWTH

STRATEGIC ACTIONS

Help Canadian SMEs be more competitive

Innovation
Accelerate innovation by Canadian businesses

2 **SME Growth**
Support entrepreneurs as they grow and expand their business

Client Experience
Make it easier for entrepreneurs to do business with BDC

Support a healthy entrepreneurial ecosystem in Canada

Entrepreneurial Culture
Champion Canadian entrepreneurship

Market deficiencies
Increase risk threshold to address market gaps

Partnerships
Leverage partnerships to reach and better serve SMEs

> BDC helps Canadian SMEs at all stages of the growth cycle through the provision of financing, subordinate financing, consulting and VC.

❷ SME Growth — Support entrepreneurs as they grow and expand their business

Growth is what entrepreneurial ambition is all about. But as businesses grow, finding ways to sustain that growth becomes more challenging. Statistics Canada's Business Registry data show that there has been a decline in the number of medium-size firms (with 100-499 employees) in Canada. Part of BDC's role is to ensure that smaller firms are maturing into medium-size firms, which is a critical process for the overall success of any domestic economy.

BDC helps Canadian businesses in a broad range of sectors as they develop, expand and mature through its financing, subordinate financing and consulting services. BDC is also an important contributor to the growth of technology firms through direct and indirect VC investments.

FINANCING FOR GROWTH

BDC assists entrepreneurs as they grow their business by providing financing services to:

- Expand facilities
- Purchase a company or finance a merger
- Purchase state-of-the-art M&E
- Explore new markets, local and global
- License and franchise

As a business matures, BDC subordinate financing ensures sufficient capital along the growth path. It supports high-potential, growth-oriented firms by providing flexible quasi-equity and/or "equity-type" financing for businesses and entrepreneurs at the smaller end of the mezzanine financing spectrum.

Subordinate financing is especially useful as a strategic alternative when purchasing intangible assets, growing a business or acquiring another company.

BDC works with clients to ensure that they are presented with both financing and subordinate financing options. Its subordinate financing deals are usually in the range of $1 million, as compared to deals of more than $5 million available in the market.

Also with a view to assisting companies as they grow, BDC subordinate financing is offering risk capital to companies in the technology services sector. These companies have proven products that have been accepted in the market, but are not yet cash-flow positive. They often need small financing rounds that most institutions are not interested in supplying, as the amount is too small and the risk/reward payoff is not sufficiently attractive because of the later stage of the company.

As a result, BDC is offering small rounds ($500,000 to $2 million) of equity-type investments to help these companies attain a revenue-positive position.

CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. Through its team of internal consultants and by drawing upon external expertise, BDC strives to provide entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets.

BDC's consulting services are designed to assist with:

- Business planning, including financial planning
- Optimizing processes, including attaining ISO certification
- Innovation planning
- Implementing ICT solutions
- Developing markets, including market research and globalization
- Transition planning, including selling a business

SUPPORT FOR INTERNATIONAL GROWTH

In order to grow, Canadian businesses must look abroad to tap into foreign consumer markets or participate in global value chains. BDC expects that, increasingly, this will be a necessity for many Canadian SMEs, given the international nature of the marketplace.

Over the planning period, BDC will continue to implement its Global Expansion strategy. This strategy builds on its Market XPansion Loan and Market XPansion Plus

Loans, financing products for Canadian SMEs considering expansion abroad.

The Global Expansion strategy also includes a consulting component to help entrepreneurs find promising opportunities in specific markets. These are markets where private-sector financial institutions are not as active at the SME level, thereby creating a financing gap for SMEs considering expanding to those countries. Examples of markets identified by BDC include China and India.

In the short-term, BDC will continue to build corporate knowledge and capacity. It will accomplish this in part by continuing to work closely with the Department of Foreign Affairs and International Trade, Export Development Canada and the Canadian Manufacturers and Exporters to share knowledge and collaborate (please see page 46 for more detail on these partnerships).

❸ CLIENT EXPERIENCE

STRATEGIC ACTIONS

Help Canadian SMEs be more competitive

Innovation
Accelerate innovation by Canadian businesses

SME Growth
Support entrepreneurs as they grow and expand their business

❸ **Client Experience**
Make it easier for entrepreneurs to do business with BDC

Support a healthy entrepreneurial ecosystem in Canada

Entrepreneurial Culture
Champion Canadian entrepreneurship

Market deficiencies
Increase risk threshold to address market gaps

Partnerships
Leverage partnerships to reach and better serve SMEs

> BDC recognizes the importance of the client relationship and is constantly working to streamline its processes so that entrepreneurs face less process and less paper burden.

❸ Client Experience – Make it easier for entrepreneurs to do business with BDC

Providing entrepreneurs with the best possible service and support is an essential component of BDC's business. BDC has a long history of meeting client needs by offering flexible solutions, with terms and conditions tailored to specific situations, and by providing a comprehensive training curriculum for its business development bankers.

And while BDC has maintained a client satisfaction rate above 90 percent for many years, it is continually assessing how to improve its services. It regularly surveys its clients to get feedback on the quality of its services and processes.

This input has led BDC to introduce several initiatives designed to simplify and improve the client experience. Many of these will result in reduced paper burden, which has been identified as a major obstacle to SME success and is a current federal government priority.

BDC – A FLEXIBLE LENDER

> Credit decisions that go beyond credit scoring and security considerations and take into account project viability and entrepreneurs' experience
> Local relationships that enable tailored financing suited to entrepreneurs' needs
> Flexible terms and conditions that allow for customized repayment schedules
> Postponements of principal payments based on business cycles and needs
> Financing terms and amortization periods that match an asset's useful life

SPECIFIC LOAN TYPES

Part of improving the client experience has meant streamlining or improving loans designed for specific purposes.

ICT

In response to the Government's request to support the Digital Economy Strategy, BDC is making it easier for entrepreneurs to finance projects involving ICT. Part of the solution has been to make applications for such loans available online and to allow applicants for loans under $50,000 to submit their applications electronically. This has reduced processing time significantly, with BDC's first ICT loan of this type authorized within 48 hours of the launch of the initiative.

Machinery & equipment

BDC recognizes the need for Canadian businesses to invest in M&E that has the potential to boost domestic productivity and add to Canada's overall standard of living.

In an effort to increase the purchase of M&E, BDC is considering introducing a special loan for equipment that features a simpler authorization process to reduce the processing time and paper burden for entrepreneurs. Also for equipment loans, BDC will not systematically be asking for any security shortfall to be offset by a personal guarantee.

Pre-approved loans

BDC is working to institutionalize the process for pre-qualified loans for existing clients. Currently, these loans are being offered to 8,000 BDC clients, with amounts up to $100,000 for working capital, $500,000 for ICT and varying amounts for fixed assets.

Pre-approval dramatically reduces the paper burden and process involved in providing these types of loans to existing clients.

DOING BUSINESS ONLINE

Increasingly, entrepreneurs want to be able to access online the information and documentation they need to do business. With this in mind, BDC has introduced a client portal strategy, a secure multi-interactional channel that:

> improves information exchange with BDC clients while reducing the paper burden for entrepreneurs
> reaches small loan applicants more efficiently, thereby reducing administration costs, which historically have been a barrier to serving this market

GOING FORWARD

Over the planning period, BDC will continue to identify products and processes that can be tailored or simplified to enable BDC clients to benefit from a faster, less complicated experience.

BDC also recognizes that, just as it encourages its clients to invest in ICT, it must also make such investments.

In 2007, BDC introduced its Agility and Efficiency (A&E) project, which was designed to:

> Improve processing time for loan requests and authorizations
> Improve the ability to access client information
> Reduce or eliminate paper handling
> Improve approval processes
> Make communication easier between all parties involved in client business processes
> Encourage a mindset of continuous improvement

Through A&E, BDC will continue to standardize and streamline its core processes. It is also making a substantial investment to develop customized computer systems to more fully automate its lending platform and reduce underwriting times. This will result in more timely and efficient processing and less red tape for clients.

Internal goals for A&E going forward include a more mobile workforce, reduced paper burden, and using technology to provide employees with a variety of skills and knowledge and to automate workflows, all with the goal of constantly improving the client experience.

❹ ENTREPRENEURIAL CULTURE

STRATEGIC ACTIONS

Help Canadian SMEs be more competitive

Innovation
Accelerate innovation by Canadian businesses

SME Growth
Support entrepreneurs as they grow and expand their business

Client Experience
Make it easier for entrepreneurs to do business with BDC

Support a healthy entrepreneurial ecosystem in Canada

Entrepreneurial Culture
Champion Canadian entrepreneurship — 4

Market deficiencies
Increase risk threshold to address market gaps

Partnerships
Leverage partnerships to reach and better serve SMEs

> An entrepreneurial culture is important for any economy and forms the foundation for the establishment and growth of successful, innovative firms. BDC promotes an entrepreneurial culture by helping small businesses, start-ups and specific types of entrepreneur.

❹ Entrepreneurial Culture — Champion Canadian entrepreneurship

A vibrant entrepreneurial culture is the foundation for a healthy economy. BDC helps businesses at all stages of business development.

SMALL BUSINESS AND START-UPS

According to a study prepared for the G20 Young Entrepreneurs Summit in October 2011, Canada is one of the best countries among the G20 for small business owners. An Ernst & Young survey of 1,000 entrepreneurs from across the G20 found that Canada scored high in business confidence, start-up costs and a strong banking sector.

Yet the economic crisis has taken a toll on small businesses and entrepreneurialism in Canada. Between June 2008 and June 2009, nearly 100,000 businesses disappeared from the Statistics Canada Business Register. This 4.1 percent drop in the number of businesses compares to a 0.8 percent drop in the previous year. BDC will work with Statistics Canada to better understand and assess the implications of this.

BDC has a long history of providing small loans (below $500,000) to Canada's entrepreneurs. From 2002 to 2011, the median loan size authorized by BDC (in constant dollars) has ranged from $143,000 in 2002 to $85,836 in 2011.

BDC's current Small Business Strategy is a tailored approach for small loans. Since the strategy's inception in May 2007, BDC has authorized $3 billion in loans under $500,000. In fiscal 2011, the number of small loans represented 85 percent of loans authorized.

The Small Business Strategy involves special financing tools such as a Key Success Factors grid, work methods and risk assessments. Training and accreditation are mandatory for front-line employees to develop expertise in financing start-ups and intangible assets.

Key to the strategy is help for start-ups. The percentage of start-ups in BDC's loan portfolio is double that found in the total Canadian business population. From 2002 to 2011, BDC's annual authorizations for start-ups grew from $215 million to $381 million. The percentage of financing extended to these firms as a share of total financing was stable over that period. Thanks to BDC financing, about 63 percent of BDC start-up clients survive at least five years, compared to 51 percent for all start-ups in Canada.

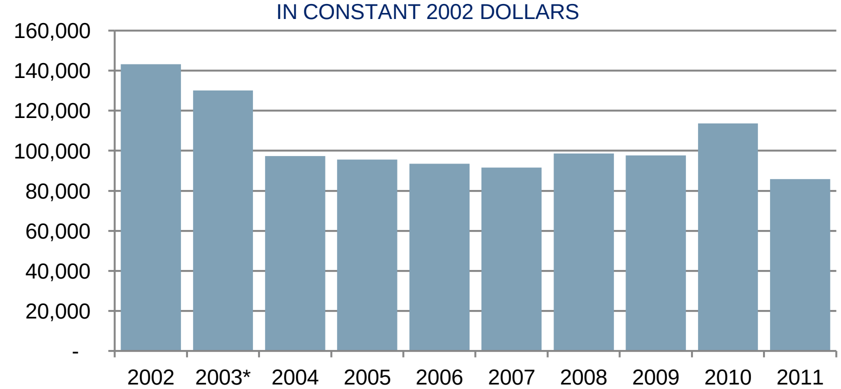
BDC SUPPORT FOR ENTREPRENEURS

# of start-ups[1] served over last ten years	12,832
$ authorized for start-ups over last ten years	$3.3B
Entrepreneurship Centres serving very small clients	18
$ authorized for small businesses[2] over last ten years	$21.9B
% of small businesses[2] served, as a % of total Financing and Subordinate Financing clients in the portfolio	96%

[1] Defined as businesses <2 years old
[2] Defined as having 1-99 employees

Technology start-ups are of particular interest to BDC. Over the planning period, BDC will work closely with angel investors and associations, as well as business accelerators. Each of these groups has a role to play in helping start-up tech firms get off the ground and secure their first rounds of venture financing. BDC will be there to help catalyze their growth.

BDC MEDIAN AUTHORIZATIONS
IN CONSTANT 2002 DOLLARS



SOURCE: http://www.statcan.gc.ca/pub/81-582-x/2011001/tbl/tblf1.3-eng.htm
*Using 2002 calendar year as 2003 fiscal year

BDC also tailors consulting services for start-ups. BDC's traditional method of using external consultants is complemented by internal BDC Business Consultants who give specialized advice and coaching to entrepreneurs throughout the business life cycle, including early growth. Group programs are also offered for clients who would not normally purchase consulting services or see more value in a group setting.

YOUNG ENTREPRENEURS

One of the best ways to develop an entrepreneurial culture is to enable young people to start their own businesses. As Canada's population ages, many of today's entrepreneurs will be retiring. To maintain economic growth and prosperity, it is important that Canada's youth fill the entrepreneurial void left by the retiring baby-boom generation. However, according to Statistics Canada, young entrepreneurs have more trouble accessing financing than older entrepreneurs.

Over the planning period, BDC will maintain its important partnership with the Canadian Youth Business Foundation (CYBF), a national organization dedicated to championing tomorrow's entrepreneurs. In this alliance, BDC offers quasi-equity financing of up to $30,000, twice the funding provided by CYBF. Recipients do not make payment of capital for the duration of the BDC loan; instead, a balloon payment is made upon loan maturity. CYBF provides mentoring and receives and manages the financing requests under this partnership. As at March 31, 2011, BDC's commitment under CYBF was for $9.1 million to about 500 young entrepreneurs.

BDC will maintain other programs to support young entrepreneurs:

> ACE Canada – A national charitable organization that gives university students access to educational services on entrepreneurship, as well as to mentors. In partnership with business and higher education, ACE delivers experience-based programs that teach students how to address economic, social and environmental issues in their entrepreneurial ventures. ACE currently delivers two programs at more than 60 universities and colleges across Canada, involving over 1,900 student leaders and student entrepreneurs.

> Vanier College BDC Business Case Challenge – Business case competition for pre-university students.

> Canadian Youth Business Foundation (CYBF) Chairman's Awards – Awards celebrating the accomplishments of entrepreneurs and mentors.

> Junior Achievement (JA) – BDC supports JA financially through various initiatives and in kind with BDC employees who train high school students.

> Shad – BDC sponsors and provides expertise to a summer enrichment program in entrepreneurship for high school and college students.

> École d'Entrepreneurship de la Beauce (EEB) – BDC is in year two of a three-year funding commitment to support EEB, a regional organization and school in Quebec that offers grants and entrepreneurship development programs created by more than 50 entrepreneurs and experts.

> Young Entrepreneur Awards (YEA) – These awards pay tribute to young Canadian entrepreneurs, age 19 to 35, who are outstanding not only because of their success in business, but also because of their creativity, innovative spirit and community involvement. Winners become role models for aspiring young entrepreneurs.

ABORIGINAL ENTREPRENEURS

Aboriginal business is important for the Canadian economy, yet these businesses sometimes lack the financing necessary to start or expand their operations. BDC's Aboriginal Banking Unit (ABU) is a dedicated business unit headquartered in Winnipeg mandated to assist Aboriginal entrepreneurs in accessing capital and developing their businesses.

BDC uses a grassroots approach called the Circle of Entrepreneurial Success to deliver management training, mentorship and financing to Aboriginal entrepreneurs who:

> have commercially viable businesses

> have an acceptable level of management expertise
> demonstrate financial commitment
> are willing to take part in a mentorship program
> operate on- and off-reserve in Canada

Over the planning period, BDC will evolve the strategy. Loans will be offered for acquisition of fixed assets, franchise fees, working capital, market development, start-up costs, or to replenish working capital depleted by capital expenditures. Loan amounts will range from $25,000 for start-ups, to $100,000 for existing businesses.

To reach members of the community, BDC will continue to publish its Aboriginal Banking newsletter. The E-Spirit Business Plan Competition also helps create and promote awareness of business and self-employment as a viable career option among Aboriginal youth. To date, 5,000 students have participated in the program.

INFORMATION AND RECOGNITION

To help all entrepreneurs, regardless of their place on the growth continuum, BDC offers support through information and recognition:

> Small Business Week™ – BDC's hallmark pan-Canadian event.
> Information – Small enterprises typically have limited access to competitive intelligence. BDC will continue to produce *Profit$*, e*Profit$,* its monthly Economic Letter and other information materials via its Internet site and external client portal.
> Research – BDC will continue to survey its clients on their needs and challenges and conduct research on its own or with partners to stay in tune with market dynamics.
> Collaboration – BDC works with partners, including the International Council for Small Business, to promote entrepreneurship among academics, researchers and other stakeholders.
> Policy – BDC works with federal government partners, including Industry Canada and Finance Canada, to contribute to the development of government policy relating to small businesses and entrepreneurs.

5 MARKET DEFICIENCIES

STRATEGIC ACTIONS

Help Canadian SMEs be more competitive

Innovation
Accelerate innovation by Canadian businesses

SME Growth
Support entrepreneurs as they grow and expand their business

Client Experience
Make it easier for entrepreneurs to do business with BDC

Support a healthy entrepreneurial ecosystem in Canada

Entrepreneurial Culture
Champion Canadian entrepreneurship

Market deficiencies
Increase risk threshold to address market gaps

5

Partnerships
Leverage partnerships to reach and better serve SMEs

> Identifying and working to fill market gaps or deficiencies is a crucial part of BDC's mandate. BDC works to address both structural and cyclical deficiencies in the Canadian economy.

❺ Market Deficiencies — Increase risk threshold to address market gaps

SMEs in general are often seen as higher risk, requiring smaller loans and more flexible terms than other business borrowers, and generally experience more difficulty in accessing financing than larger, more established businesses.

The economic crisis served to exacerbate this situation. In a 2011 Ernst & Young survey of 1,000 entrepreneurs from across the G20, 38 percent of Canadian respondents said bank lending had deteriorated and 50 percent said access to venture capital had worsened.

As recently as October 2011, BDC clients indicated that the top two obstacles limiting the expansion of their business were the economic situation and problems accessing additional financing.

BDC's role is to support SMEs, which are recognized as engines of economic growth, job creation and innovation in Canada.

ADDRESSING STRUCTURAL DEFICIENCIES

Structural deficiencies are ongoing gaps in the market experienced by specific types of businesses, such as small businesses, start-ups, young entrepreneurs, exporters, innovators and knowledge-based firms, as well as businesses in cyclical sectors, according to data from Statistics Canada's Financing Data Initiative.

Statistics Canada data for 2007 show that decline rates are higher for younger companies but start to decrease as companies age and establish a financial and business track record. Young entrepreneurs have a more difficult time getting approval for credit than older business owners.

And while exporters had a higher request rate for term debt than the market average, they experienced a much lower approval rate for these requests (79 percent versus 91 percent for non-exporters).

These types of firms have trouble accessing financing because they may be inexperienced, have no financial track record, have little to pledge as security, or simply because of their location in a remote or under-serviced region.

BDC assists these types of firms. This is reflected in the number of clients it has in higher-risk segments. For example, 91 percent of BDC clients are SMEs with fewer than 50 employees, approximately six percent have been in business less than two years, 18 percent are exporters and 12 percent are young entrepreneurs[9]. Eleven percent of BDC's financing and subordinate financing clients are in the tourism sector. BDC also provides financing on specialized and sizable assets in remote locations.

[9] 34 years old or less at time of authorization

Over the planning period, BDC will continue to finance these higher risk market segments.

ADDRESSING CYCLICAL DEFICIENCIES

Cyclical deficiencies are more temporary. They are experienced by all businesses when the economic cycle enters a downturn, for example, in the recent financial crisis, which led to a severe shortage of private credit for Canadian entrepreneurs.

At that time, approval rates in the marketplace for small business seeking financing declined from 89 percent in 2007 to 79 percent in 2009, the lowest rate in a decade. Put another way, 21 percent of small businesses seeking loans from August 2008 to September 2009 were refused financing, almost double the share (11 percent) from two years earlier. Approval rates in 2009 were even lower for very small (70 percent) or young firms (44 percent).

As the private sector pulled back from the financing market, BDC stepped in, partly in response to a request from the Government. Over the planning period, BDC will remain ready to respond in this manner as part of its key role as a counter-cyclical and complementary lender. BDC's role during the recent financial crisis was praised by the Conference Board of Canada in a 2010 report.

BDC will also maintain its core positioning and support for entrepreneurs in declining markets such as manufacturing and cyclical sectors such as tourism, while also having a significant presence in more volatile industries such as suppliers of premises and car dealerships.

BEYOND THE FINANCIAL CRISIS

BDC played an important role during the economic crisis at the request of the Government by working with private-sector partners to offer the Canadian Secured Credit Facility (CSCF). This program, which had the goal of increasing liquidity in the market and augmenting investor confidence in asset-backed securities, is now over. No new authorizations are being done and repayments are being made. Unused capital that the Shareholder provided for this program is being returned.

Multi-Seller Platform for Small Originators (MSPSO)

An ongoing market deficiency identified by BDC is for smaller players in the domestic independent financing and leasing market for vehicles and equipment. To address this gap, a partnership was announced between BDC and TAO Asset Management in April 2010.

The MSPSO was created to ensure that smaller finance companies would be able to provide financing for the vehicle and equipment needs of businesses and consumers.

MANAGING RISK

Because BDC takes more risk than other lenders, it needs a robust method of assessing and managing this risk. BDC's enterprise risk management (ERM) system takes into account the activities of the entire organization to manage risk and maintain a state of readiness.

An ERM Committee proposes risk policies for Board approval and recommends actions to ensure the risk profile for current and emerging risks is understood and aligned with the corporate strategy, financial targets and ERM / risk policies.

Key financial and non-financial risks are:

- Credit risk – associated with the Bank's loan portfolio
- Investment Risk – associated with the Bank's investment portfolios (VC – direct and indirect portfolio, subordinate finance and securitization)
- Market Risk – the risk that may arise from developments in marketplace dynamics or an inability to forecast unfavourable economic conditions with sufficient lead time for BDC to counter the impact on its portfolio
- Business Management Risk – related to the Bank's ability to execute strategy
- Broad / Strategic Risk – associated with the Bank's mandate and long-term sustainability

The MSPSO took an innovative approach to providing this funding, for example:

- By using private-sector securitization techniques and funding creditworthy companies, the financial risk of the transactions authorized was greatly reduced.
- Best practices around legal documentation, due diligence, and transaction structures have been deployed to reduce the risk for BDC as an investor and encourage practices that will increase confidence, thereby improving private-sector funding to these companies. The agreements that govern BDC's platform permit investment from private investors and encourage BDC's partner, TAO, to seek out these additional investors.
- Another best practice area has been the requirement for "skin-in-the-game", or a true risk-sharing arrangement between BDC, the company benefiting from the financing and the private-sector partner, TAO. This alignment of interests is an important factor in the expansion of credit and in creating a lasting, sustainable solution for financing this sector of the market.
- By making a commitment to participate in this market for a sustained period of time – if companies are to offer financing and leasing products to SMEs they need to have sources of financing upon which they can rely, otherwise they will be unable to grow their businesses and end-users of the vehicles and equipment, SMEs, will also be constrained in their productivity.

As at December 31, 2011, total MSPSO authorizations were $400 million, with several transactions in the pipeline, and $61.8 million of authorizations had been disbursed.

In an October 2011 letter to the Minister of Finance, the Canadian Finance and Leasing Association (CFLA) supported the continuation of the MSPSO, noting that it should "remain an important policy tool for the foreseeable future, in assuring credit stability and reliability to finance the acquisition of equipment, machinery and vehicles by business and consumer customers."

BDC will continue to manage the MSPSO over the planning period and will modify its parameters to address market gaps as they evolve. By leveraging the private sector, BDC's involvement in this market helps to ensure that SMEs are provided with the liquidity they need to purchase vehicles and equipment, thereby helping to boost Canadian productivity.

In its letter to the Minister, the CFLA pointed out that investor confidence has yet to return to this market. Securitization is a useful tool to help expand the credit available to businesses to make these purchases and BDC's involvement in providing indirect financing supplements its provision of direct financing.

Infrastructure

Infrastructure financing has been particularly affected by the pullback of European lenders, and BDC is increasingly being invited to participate in the market. After consultations with market players, BDC has identified four gaps where it can assist SMEs in this market:

1. Projects of less than $100 million
2. Projects involving small, unrated contractors
3. Projects with an untested structure
4. Projects that struggle to reach financial close due to a lack of liquidity in the long-term debt market

Over the planning period, BDC proposes to:

- Concentrate on projects and entrepreneurs (including construction contractors, specialized subcontractors, tradespeople, engineers, architects and providers of facility management services) that represent a higher risk than other market participants due to their smaller size and lesser experience
- Complement private-sector lenders
- Help stimulate private-sector investment in this market segment

GOING FORWARD

BDC will make a concerted effort to take more calculated risk to fill identified gaps in the financial marketplace.

For example, although the recent recession was relatively shallow in Canada, many businesses are now faced with financial statements that are not as strong as they were pre-crisis. As a result, 74 percent of BDC clients say they require working capital.

In response, BDC is increasing the amount of working capital it will provide under a pre-qualified loan from $100,000 to $500,000, and speeding up the authorization process to access these loans.

In addition, many BDC clients face pressure to pay suppliers earlier in the production process, yet payment terms from their own customers have been extended. As a result, many find themselves in a cash squeeze.

In response, BDC is exploring a financing offering (e.g., purchase order financing) for its clients, which will help them have the cash on hand to pay their expenses while goods are in transit and invoices are awaiting payment.

❻ PARTNERSHIPS

STRATEGIC ACTIONS

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Support entrepreneurs as they grow and expand their business

Client Experience
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Champion Canadian entrepreneurship

Market deficiencies
Increase risk threshold to address market gaps

Partnerships
Leverage partnerships to reach and better serve SMEs ❻

> Working in partnership with a variety of organizations enables BDC to extend its reach to SMEs and ensure its complementary role in the marketplace.

❻ Partnerships — Leverage partnerships to reach and better serve SMEs

As a complementary lender, BDC plays a vital role in helping entrepreneurs succeed. It does so by working in collaboration with a variety of partners and other financial institutions.

SUPPORT FOR SME GROWTH

Export Development Canada (EDC)

BDC's activities in support of Canadian companies are enhanced by its relationships with other Crown corporations, including Export Development Canada (EDC). By working with EDC and others, BDC is able to present a wider variety of solutions to meet the needs of Canadian companies, better positioning them for success.

BDC and EDC have different and complementary roles. They have developed a two-way referral system to ensure that Canadian companies can easily access the services of the organization whose competencies best meet their needs. BDC is continuing to work with EDC to ensure clients and partners have a clear understanding of these respective competencies. A Memorandum of Understanding (MOU) was finalized in late 2011 laying out the guiding principles that will optimize collaboration and engagement. It will constitute the basis for concrete action in 2012, starting with regular, structured engagement at operational and executive levels, with a main objective to provide better all-around service for Canadian businesses.

Financial Institutions

BDC participates in a new forum with EDC and Canada's banks that focuses on the credit needs of Canadian businesses. The forum is designed to foster a regular dialogue, allowing the institutions involved to share experiences, observations and trends.

In addition, BDC is involved in a series of bilateral meetings with Credit Union Central of Canada.

BDC is also occasionally invited by other financial institutions to participate in banking syndicates in support of larger Canadian companies. BDC maintains the capacity to do so through its Corporate Finance group.

Farm Credit Canada (FCC)

BDC will continue its work with FCC to increase the availability of financing to agri-businesses and agri-food businesses.

Department of Foreign Affairs and International Trade (DFAIT)

BDC and DFAIT work together to provide Canadian entrepreneurs with access to foreign networks. In 2011, BDC signed an MOU with DFAIT to share business intelligence about global markets and encourage closer collaboration on joint marketing initiatives. The MOU also increases cooperation in fields such as training and staff development. It supplements an existing agreement between BDC and the International Business Opportunities Centre (IBOC), part of DFAIT that helps Canadian companies identify international business opportunities.

Canadian Manufacturers and Exporters (CME)

In 2009, BDC and CME in Quebec undertook a pilot project, “Export Experts,” a series of on-site workshops that highlight best practices in international trade. The program was well-received, with 86 percent of respondents achieving their personal objectives. Based on these positive results and recognizing the needs of Western-based manufacturers, BDC and CME in British Columbia collaborated successfully on the delivery of five sessions, each focussing on a different target trade market. Additional partners include the Government of British Columbia (Ministry of Science, Technology and Economic Development), EDC and DFAIT. This series, known as “Export Insights,” will be featured in Ontario this fiscal year and is planned to be presented in up to five additional locations during fiscal 2013.

Forum for International Trade Training (FITT)

BDC will continue to work with the Forum for International Trade Training (FITT) to provide training to its employees and offer the Going Global Group Program to its clients. This program helps entrepreneurs gain the knowledge and practical skills needed to internationalize, whether by sourcing cheaper inputs abroad, entering a global supply chain or exporting and expanding to foreign markets.

Key goals of the program are to:

- increase employee understanding and knowledge of international trade and foreign markets
- better position businesses to compete in the global economy
- share experiences and best practices with other businesses
- receive individual coaching from an experienced trade practitioner

Québec's Ministère du développement économique, de l'innovation et de l'exportation

BDC will continue its successful partnership with Québec's Ministère du développement économique, de l'innovation et de l'exportation on the Croissance Québec Techno project. The aim of the project is to leverage the Massachusetts Institute of Technology's resources, knowledge and network to support 10 high-potential companies in their goal to reach $20 million in revenue within five years.

QG100 Le Reseau Quebec Global 100

BDC is a founding member of QG100, a private group of chief executive officers from Quebec that supports the short-term development of global businesses; promotes the sustainability of their positions in the context of international competition; and benefits from the global business expansion of its members. Over the planning period, BDC will promote this "entrepreneur helping entrepreneur" model in other regions.

C100

BDC is an active member of C100, a non-profit, member-driven organization dedicated to supporting Canadian technology entrepreneurship and investment.

It is comprised of a select group of Canadians based primarily in Silicon Valley, including executives of leading technology companies, experienced startup entrepreneurs and venture capital investors. C100 members leverage their collective experience, expertise and relationships to help mentor and grow a new generation of successful, Canadian-led technology companies.

C100 Charter Members include start-up CEOs, top executives of companies such as Apple, Cisco, EA, eBay, Facebook, Google, Microsoft and Oracle, and venture investors representing more than $8 billion in capital.

TAO Asset Management and other private-sector players

To help ensure the availability of financing for vehicle and equipment purchases by SMEs, BDC partners with private-sector players to help ensure liquidity in the securitization market.

SUPPORT FOR SME INNOVATION

National Research Council of Canada (NRC) and Natural Sciences and Engineering Research Council of Canada (NSERC)

In January 2007, BDC embarked on a formal collaboration with NRC and NSERC, with the objective of strengthening commercialization outcomes by leveraging the individual strengths and complementary roles of each organization. The early results achieved in these priority areas were primarily in creating the environment and infrastructure for increased collaboration, including more coordinated regional efforts.

Since then, the partnership has:

- Increased opportunities for joint funding by the partners;
- Improved access to complementary federal funding programs that address different aspects, stages, or scales of research and/or technology development;
- Improved access to investment capital; and
- Increased awareness of partnership opportunities and available funding programs.

Over the planning period, the NRC-NSERC-BDC partnership will focus on:

- Jointly supporting the federal government's Digital Economy Strategy through a cross-referral process;
- Developing joint approaches to working with colleges; and
- Continuing to increase program coherence by ensuring that field staff in the partner organizations is aware of the possibilities in each other's programs.

SUPPORT FOR YOUNG ENTREPRENEURS

Canadian Youth Business Foundation (CYBF)

The CYBF is a national organization that provides support to aspiring entrepreneurs, age 18-34 years, who want to start a business but find it difficult to obtain financing or mentoring through traditional sources. Founded in 1996, CYBF has invested in more than 4,750 young people whose businesses have generated millions in sales tax and export revenues and created more than 18,600 jobs. BDC's partnership with CYBF is described on page 39.

REACHING NON-URBAN REGIONS

Community Futures Development Corporations (CFDCs)

BDC's long-standing partnership with CFDCs helps it to reach smaller businesses in non-urban centres. Out of the total 268 CFDCs across the country, BDC has signed 229 partnership agreements. Over the past five years, $468.3 million in loans has been authorized under the CFDC alliance. While BDC has business centres in Whitehorse and Yellowknife, the partnership it has with CFDCs contributes greatly to its reach in Canada's North, where BDC has partnership agreements with14 CFDCs that service Yukon, Nunavut, and NWT.

Serving Canada's North

To support entrepreneurs in Canada's North, BDC works with a number of government partners, including:

> Indian and Northern Affairs Canada (INAC)
> Canadian Northern Economic Development Agency (CanNor)
> Business Development Centres that are part of the territorial government network
> NWT Ministry of Industry, Investment and Tourism
> NWT Business Development and Investment Corporation
> Government of Yukon (the Department of Economic Development)

These partnerships help BDC extend its reach into more remote regions of Canada and also support BDC's Aboriginal entrepreneur strategy by, for example, encouraging Aboriginal youth to participate in BDC's E-Spirit Business Plan Competition.

INTERNATIONAL ORGANIZATIONS

BDC establishes partnerships with groups and associations to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.

Financing Institutions – Asia Pacific and Latin America

BDC is a member of ADFIAP, the Association of Development Financing Institutions in Asia and the Pacific, which is the focal point for development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. BDC is also a member of ALIDE (Latin American Association of Development Financing Institutions), which represents Latin American and Caribbean development banking.

Development banks worldwide

BDC has strong relationships with development banks around the world in order to share best practices. Over the planning period, BDC will continue to make contributions to the development bank community, through activities such as:

> Refining a benchmarking software tool and platform, enabling BDC and other development banks to obtain information about their counterparts on such practical information as product and service offering, for the benefit of clients. The tool could also host a community where development banks can exchange information and tackle common challenges.
> The Montreal Group, a forum initiated by BDC to formalize the relationship among a small number of development banks from advanced countries, sharing similar challenges and approaches. BDC hosted the inaugural forum in September 2011.

FINANCIAL PLAN

FINANCIAL PLAN

PLANNED PERFORMANCE

Financial Plan Assumptions

BDC's Financial Plan is based on the economic conditions described in the Operating Environment of this Corporate Plan. Namely, that:

> economic fundamentals in Canada are solid with good financial and fiscal conditions;

> Canada will experience slow growth over the planning period – the consensus forecast for GDP growth in calendar year 2012 is 2.0 percent;

> external factors will continue to create uncertainty and businesses may remain tentative about investments if conditions do not improve in the U.S. and Europe;

> notwithstanding implementation of Basel III capital requirements and the tenuous position of financial institutions in Europe, commercial lending by Canadian financial institutions will remain stable but market deficiencies will remain;

> foreign financial institutions will be less present and their lending will not return to pre-crisis levels; and

> the venture capital environment will remain difficult.

BDC's Financial projections:

> include concrete efforts to improve efficiency to respond to the Federal Government's Strategic and Operating Review (SOR);

> take into account the end of the Business Credit Availability Program (BCAP);

> show the return to the Shareholder of $656 million in unused capital under the Economic Action Plan; and

> do not assume any changes to BDC's governing statute as a result of the ten-year Legislative Review of the BDC Act, which is still underway.

Based on these assumptions, BDC projects activity and financial results described in the following sections, including projected financial statements.

Note to reader on Transition to IFRS - In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that all publicly accountable Canadian enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. In December 2009, the Public Sector Accounting Board confirmed that government business enterprises must adhere to the standards applicable to publicly accountable enterprises.

As such, BDC began applying IFRS on April 1, 2011. All financial information presented in this Corporate Plan is based on IFRS and includes restated fiscal year 2011 results to comply with IFRS. Reconciliation of financial statements previously prepared under Canadian generally accepted accounting principles (GAAP) for fiscal year 2011 to IFRS is shown under Appendix B.

BDC Financing

After a record increase in fiscal year 2010, financing acceptances decreased by more than 25 percent in fiscal year 2011, as commercial lending by financial institutions increased. With stabilizing economic and credit conditions in Canada in fiscal year 2012, BDC expects to end the fiscal year with net acceptances at $3.25 billion, less than the $3.485 billion estimated in the 2012-16 Corporate Plan. This decrease in BDC's activity reflects its complementary role in an environment of improved credit conditions.

It is expected that Canadian economic growth will remain moderate, interest rates will remain relatively low and liquidity will be stable. As a result, BDC expects no growth in its lending activity in fiscal year 2013.

BDC will continue to play its complementary role in helping entrepreneurs succeed by collaborating with other financial institutions and addressing market deficiencies by, for example, increasing its support of SMEs through working capital and equipment/ICT financing.

FIGURE 1 | ACTIVITY ACCEPTANCES FORECAST ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Total BDC Financing acceptances ($M)	3,245	3,250	3,250
Growth (%)	(25.3%)	0.2%	0.0%

Driven primarily by fewer financing acceptances, BDC's Financing portfolio is expected to grow less in fiscal years 2012 and 2013 than projected in its 2012-16 Corporate Plan; from fiscal 2012 to fiscal 2013, it is expected to grow by $577 million. Higher loan prepayments (clients paying off their loans to BDC before the end of the defined term because, in most cases, their position has improved and they have obtained financing from another financial institution) and repayments (payments according to schedule) will also reduce portfolio growth.

BDC's efforts to align with the Strategic and Operating Review (SOR), described on page 60, will result in improved efficiency. BDC Financing operating and administrative expenses, as a percentage of average outstanding portfolio, will be stable. Although the dollar amount of operating and administrative expenses is expected to increase in fiscal 2013, this is mainly due to increased pension costs, Québec sales tax harmonization and BDC investments in its Agility and Efficiency (A&E) Program aimed at improving client service and BDC efficiency.

Net income is forecasted to reach $469 million in fiscal year 2012, a significant increase from fiscal year 2011. This increase is mainly due to the recording of an impairment reversal on loans resulting from a lower allowance for credit losses due to improved market conditions and lower downgrades of accounts to impaired, as well as the income resulting from a larger portfolio that grew during the financial crisis. Overall interest rates are assumed to remain low with a slight increase during the latter years of the planning period. Fluctuation in interest rates may affect BDC financial results. Exposure to interest rate risk is controlled through hedges and gap analysis between assets and borrowing durations.

FIGURE 2 | FINANCING – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Net interest income	**723**	**760**	**780**
Fee and other income	14	14	15
Net realized gains (losses) on other financial instruments	(6)	-	-
Net revenue	**731**	**774**	**795**
Impairment reversal (losses) on loans	(104)	11	(200)
Net unrealized gains (losses) on other financial instruments	(18)	2	(1)
Income before operating and administrative expenses	**609**	**787**	**594**
Operating and Administrative Expenses	303	318	338
Net income[1]	**306**	**469**	**256**
As a % of average outstanding			
Net interest income	5.2%	5.1%	5.0%
Fee and other income	0.1%	0.1%	0.1%
Net realized gains (losses) on other financial instruments	0.0%	0.0%	0.0%
Net revenue	**5.3%**	**5.2%**	**5.1%**
Impairment reversal (losses) on loans	(0.7%)	0.1%	(1.3%)
Net unrealized gains (losses) on other financial instruments	(0.1%)	0.0%	0.0%
Income before operating and administrative expenses	**4.5%**	**5.3%**	**3.8%**
Operating and Administrative Expenses	2.2%	2.1%	2.2%
Net income	**2.3%**	**3.2%**	**1.6%**
Average outstanding	**14,026**	**14,895**	**15,709**

[1] Net income before OCI, refer to figure 14 for details

Subordinate Financing

BDC will continue to address the needs of high-growth firms through its specialized subordinate financing product. Subordinate Financing acceptances are expected to reach $150 million in fiscal year 2013.

The value of this portfolio of high growth companies is expected to reach $497 million in fiscal year 2013.

Driven primarily by pension costs, operating and administrative expenses are planned to increase slightly in fiscal year 2013 although efficiency is improving.

In fiscal year 2013, net income is estimated at $27 million. Figure 3 details the net income attributable to the shareholder (BDC) and non-controlling interests (Caisse de dépôt et placement du Québec).

FIGURE 3 | SUBORDINATE FINANCING – ACTIVITY & FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Acceptances (#)	97	120	125
Acceptances ($)	107	130	150
Growth (%)		21%	15%
Portfolio ($) at fair value			
O/S portfolio	387	448	497
Net interest income	**38**	**40**	**43**
Net realized gains (losses) on investments	(16)	(2)	(7)
Fee and other income	12	15	16
Net revenue	**34**	**53**	**52**
Net change in unrealized appreciation (depreciation) of investments	3	(4)	(5)
Income before operating and administrative expenses	**37**	**49**	**47**
Operating and administrative expenses	17	19	20
Net income[1]	**20**	**30**	**27**
Net income attributable to:			
BDC's shareholder	11	19	21
Non-controlling interests	9	11	6
Net income[1]	**20**	**30**	**27**

Note: Non-controlling interests are in AlterInvest Inc., AlterInvest L.P. and AlterInvest II L.P.
[1] Net income before OCI, refer to figure 14 for details

Consulting

BDC Consulting strives to provide businesses with the customized support they need to grow their business and enhance their competiveness. In addition, during fiscal year 2012, BDC launched its ICT strategy and increased the quality of its network of consultants and internal expertise to deliver on this new strategy.

Despite their relative health, Canadian entrepreneurs are cautious about business investment in light of weaker U.S. growth and a riskier global outlook. This is particularly true when it comes to investment in services, such as consulting. With decreased demand, BDC Consulting revenues are expected to increase only slightly over the planning period. Revenues are expected to be $25 million in fiscal year 2013.

Operating expenses will increase in fiscal year 2013, mainly due to increased pension and shared service costs.

One of the main tenets of BDC Consulting is to provide consulting services that are tailored to the needs of SMEs at a cost they can afford (BDC’s average consulting mandates are in the range of $10,000 to $13,000). BDC Consulting offers these services to approximately 2,300 entrepreneurs across Canada annually, including in rural areas. Often, it is the first time the entrepreneur is purchasing a consulting mandate. While the services yield positive results from a public policy perspective (clients using BDC Financing and Consulting typically generate revenue 59 percent higher than similar companies that are not BDC clients), the approach makes it difficult for BDC to recover its costs.

To address this issue, BDC will be reviewing its Consulting delivery model in fiscal year 2013 with the objective of improving efficiency without compromising service.

FIGURE 4 | CONSULTING – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Revenue from activities	25	24	25
Operating and administrative expenses	34	35	37
Net loss[1]	**(9)**	**(11)**	**(12)**

[1] Net loss before OCI, refer to figure 14 for details

Venture Capital

Consistent with its VC strategy, BDC has created three internal direct investment funds (GPs): the IT Venture Fund, the Energy/Cleantech Venture Fund, and the Health Venture Fund. These three internal funds are focusing on building leading Canadian technology businesses. Each has been “seeded” with some of the promising investee companies from the legacy portfolio that meet the objectives of the respective fund strategies. An aggregate allocation to implement the strategies has been estimated in this Corporate Plan. The remaining legacy portfolio is being managed within the Diversified portfolio fund, which will harness the experience of seasoned BDC investment and operating professionals from ICT, life sciences, electronics and advanced materials to maximize growth and exit value through follow-on investments.

BDC VC’s indirect, or fund investment, approach is focusing on building and supporting at-scale, world-class Canadian VC funds. This is being done with larger commitments by BDC VC to funds that have a clear niche focus and widely recognized expertise in their specific areas.

Consistent with the new strategy, BDC created the Strategic Initiatives and Investments group. This team is developing new and innovative initiatives to reinforce key areas in the VC investment community and innovation ecosystem. Indirect investments are being made in funds that fill financing gaps in the VC ecosystem, focusing on early stage investments, angels and accelerators.

BDC VC estimates that, in fiscal year 2012, it will authorize $60 million in direct investments, including $5 million in Go Capital L.P., and $70 million in indirect investments (although BDC may invest more in response to market needs), including $15 million in Strategic Initiatives, for a total of $130 million. This is a significant increase from fiscal year 2011 forecast and results.

In fiscal 2013, BDC VC expects to authorize $73 million in direct investments, including $10 million in Go Capital L.P., and $70 million in indirect investments, including $10 million in Strategic Initiatives, for a toal of $143 million.

FIGURE 5 | VENTURE CAPITAL – AUTHORIZATIONS FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Direct investments	60	55	63
GO Capital L.P.	-	5	10
Total direct authorizations	**60**	**60**	**73**
Funds	35	55	60
Strategic initiatives	5	15	10
Total indirect authorizations	**40**	**70**	**70**
Total authorizations	**100**	**130**	**143**

The fair value of BDC VC’s portfolio is expected to reach $437 million by the end of fiscal year 2012 and $468 million by fiscal year 2013.

FIGURE 6 | VENTURE CAPITAL – DISBURSEMENTS AND PROCEEDS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Proceeds	38	113	95
Disbursments[1]	(90)	(135)	(127)
	(52)	**(22)**	**(32)**

[1] Excludes operating and administrative expenses

Most of BDC's proceeds will be derived from gains on its legacy portfolio, which will see positive returns as investments are beginning to exit the portfolio. New investments, on the other hand, will sustain losses; this phenomenon is generally known as the J-curve effect[10].

FIGURE 7 | VENTURE CAPITAL – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Gains (loss) of existing portfolio - Direct Legacy	6	(9)	20
Gains (loss) of existing portfolio - Direct New	-	2	(11)
Gains (loss) of existing portfolio before operating and administrative expenses and other income – Direct	**6**	**(7)**	**9**
Gains (loss) of existing portfolio before operating and administrative expenses and other income – Indirect	**(5)**	**(2)**	**(10)**
Interest expenses and other income	-	4	3
Income before operating expenses	**1**	**(5)**	**2**
Operating and administrative expenses	22	20	22
Net loss[1]	**(21)**	**(25)**	**(20)**

[1] Net loss before OCI, refer to figure 14 for details

The sustained poor performance of the Canadian VC industry for more than a decade has had a significant impact on BDC VC results. Factors leading to these results - difficult market conditions, longer investment holding periods and the need for greater lifetime capital requirements for investees – persist. Although BDC is optimistic about the direction of its strategy, net results must consider this environment. Net results also take into account the effect of the J-curve on BDC's new investments and that these will offset gains from BDC VC's legacy portfolio.

Overall net losses for BDC VC should stand at $25 million in fiscal year 2012; better than the previously projected net loss of $27 million in the 2012-2016 Corporate Plan. This lower net loss is the result of a successful exit in Q1 Labs, an investment BDC VC seeded in 2003. This exit came on the heels of another strong exit from Radian6.

In fiscal year 2013, BDC VC forecasts a net loss of $20 million. While still negative, these results are an improvement when compared to prior years.

[10] In VC, the J-curve is used to illustrate the historical tendency of VC funds to deliver negative returns in early years (due to under-performing investments that are identified early and written down) and investment gains in the outlying years as the portfolio of companies matures.

FIGURE 8 | VENTURE CAPITAL – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Net interest income	(1)	(1)	-
Net realized gains (losses) on investments	(72)	35	(44)
Fee and other income	3	3	3
Net realized gains (losses) on other financial instruments	6	2	-
Net revenue	**(64)**	**39**	**(41)**
Net change in unrealized appreciation (depreciation) of investments	72	(44)	43
Net unrealized foreign exchange gains (losses) on investments	(7)	11	-
Net unrealized (losses) gains on financial instruments	-	(11)	-
Income before operating and administrative expenses	**1**	**(5)**	**2**
Operating and administrative expenses	22	20	22
Net loss[1]	**(21)**	**(25)**	**(20)**
Net loss attributable to:			
BDC's shareholder	(18)	(24)	(19)
Non-controlling interests[2]	(3)	(1)	(1)
Net loss[1]	**(21)**	**(25)**	**(20)**

[1] Net loss before OCI, refer to figure 14 for details

[2] Non-controlling interests represents 80% of Go Capital Net income

The estimated risk associated with the value of exits and timing of expected exits is high. It is also difficult to estimate the amount and timing of fair value changes from one period to another. As such, the assumptions used to prepare the BDC VC financial plan and the financial results outlined during the planning period may be materially different than actual results.

Multi-Seller Platform for Small Originators (MSPSO)

As described in Section 5 of the Corporate Plan, gaps in the Canadian auto and equipment finance and leasing industry still exist. To address these gaps, BDC will continue to operate the Multi-Seller Platform for Small Originators (MSPSO). MSPSO is an indirect way of providing liquidity to Canadian SMEs, which tend to under-invest in machinery and equipment relative to their counterparts in other countries which invariably results in lower productivity. Because MSPSO leverages existing private-sector financing structures, it is an efficient and effective way to complement BDC’s direct financing of these assets, all with the goal of improving the productivity performance of SMEs by increasing business investment in machinery and equipment.

BDC expects acceptances to reach $410 million in fiscal year 2012 and $60 million in fiscal 2013. The portfolio fair value is expected to increase from $91 million in fiscal 2012 to $247 million in fiscal 2013.

FIGURE 9 | MSPSO – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
MSPSO acceptances	**150**	**410**	**60**
MSPSO disbursements	**-**	**104**	**220**
Portfolio at nominal value	-	91	247
Fair value allowance	-	-	-
Portfolio at fair value	**-**	**91**	**247**
Net interest income	-	1.2	4.4
Fee and other income	-	-	-
Net realized gains (losses) on investment	-	-	-
Net realized (losses) gains on financial instruments	-	-	-
Net revenue	**-**	**1.2**	**4.4**
Operating and administrative expenses	0.6	1.5	1.7
Net income (loss)	**(0.6)**	**(0.3)**	**2.7**

Canadian Secured Credit Facility (CSCF)

The Government of Canada created the CSCF in its January 27, 2009 budget as part of Canada's Economic Action Plan. The objectives were to provide funding to automotive and equipment financing companies and to help restart the securitization market in Canada, a critical financing tool for the Canadian vehicle and equipment industry.

BDC delivered on both objectives and purchased $3.654 billion of asset-backed securities (ABS) under the program; five transactions in total were purchased. The program is now over. No new authorizations are being done and repayments are being made. Unused capital that the Shareholder provided for this program has been returned to the Shareholder.

FIGURE 10 | CSCF – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
CSCF acceptances	**-**	**-**	**-**
CSCF disbursements	**300**	**-**	**-**
Portfolio at nominal value	3,043	653	221
Fair value allowance	26	7	2
Portfolio at fair value	**3,069**	**660**	**223**
Net Interest income	68.1	44.8	8.1
Fee and other income	0.9	1.5	0.1
Net realized gains (losses) on investment	1.3	-	-
Net realized (losses) gains on financial instruments	2.1	(0.1)	-
Net revenue	**72.4**	**46.2**	**8.2**
Operating and administrative expenses	1.7	0.6	0.4
Net income (loss)	**70.7**	**45.6**	**7.8**

Note: The portfolio is expected to be fully repaid by October 2013 (Fiscal 2014).
All capital remaining for CSCF will have been returned by March 31, 2013.

FIGURE 11 | SECURITIZATION – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Acceptances	**150**	**410**	**60**
Disbursements	**300**	**104**	**220**
Portfolio at nominal value	3,043	744	468
Fair value allowance	26	7	2
Portfolio at fair value	**3,069**	**751**	**470**
Net Interest income	68.1	46.0	12.5
Fee and other income	0.9	1.5	0.1
Net realized gains (losses) on investment	1.3	-	-
Net realized (losses) gains on other financial instruments	2.1	(0.1)	-
Net revenue	**72.4**	**47.4**	**12.6**
Operating and administrative expenses	2.3	2.1	2.1
Net Income (loss)[1]	**70.1**	**45.3**	**10.5**

[1] Net income before OCI, refer to figure 14 for details

Winding down of Economic Action Plan (EAP) activities

BDC's contribution to the EAP consisted of two important initiatives: the CSCF and the Business Credit Availability Program (BCAP). As mentioned above, BDC successfully designed and implemented CSCF, which has ended.

BCAP was designed to enhance cooperation between BDC, EDC and private-sector financial institutions to improve access to financing for Canadian businesses with viable business models whose access to financing would otherwise have been restricted. BDC's contribution to BCAP was the result of 1) increased activity consistent with its countercyclical role (e.g., lending for commercial mortgages, working capital, and transactions with other lenders) and the introduction of new products that have now ended (e.g., Economic Recovery Loan, Working Capital Support and the Operating Line of Credit Guarantee).

While BDC's complementary role in the market and its collaboration with financial institutions and other partners will continue, this Corporate Plan assumes the end of the BCAP program.

BDC Consolidated Portfolio and Net Income

BDC projected consolidated net income is expected to reach $508 million in fiscal year 2012, $498 million attributable to BDC. However, because of significant actuarial losses on post-employment benefits, BDC will post a consolidated comprehensive income of $252 million, $242 attributable to BDC and the remaining $10 million attributable to non-controlling interests (Caisse de dépôt et placement du Québec and Go Capital partners). The actuarial losses on post-employment benefits are mainly attributable to lower interest rates to discount the benefit obligation and lower returns than expected on pension assets. According to current accounting principles under IFRS, the actuarial losses on post-employment benefits are applied directly to retained earnings and accordingly reduce BDC capital.

FIGURE 12 | BDC PROJECTED NET INCOME ($M)

	Actual 2011	Estimate 2012	Proposed CP 2013-2017				
			2013	2014	2015	2016	2017
Financing	306	469	256	259	267	272	272
Subordinate Financing	20	30	27	29	30	32	34
Venture Capital	(21)	(25)	(20)	(10)	(5)	(15)	(15)
Consulting	(9)	(11)	(12)	(12)	(12)	(11)	(11)
Securitization	70	45	11	7	6	7	7
Net income[1]	**366**	**508**	**262**	**273**	**286**	**285**	**287**
Net income (loss) attributable to:							
BDC's shareholder	360	498	257	260	277	283	282
Non-controlling interests	6	10	5	13	9	2	5
Net income[1]	**366**	**508**	**262**	**273**	**286**	**285**	**287**

[1] Net income before OCI, refer to figure 14 for details

FIGURE 13 | PROJECTED OTHER COMPREHENSIVE INCOME ($M)

	Actual 2011	Estimate 2012	Proposed CP 2013-2017				
			2013	2014	2015	2016	2017
Net income	**366**	**508**	**262**	**273**	**286**	**285**	**287**
Other comprehensive income (loss)							
Net change in unrealised gains (losses) on available-for-sale-assets	20	(20)	(4)	(2)	-	-	-
Net change in unrealised gains (losses) on cash flow hedges	4	14	(5)	(4)	(2)	(1)	-
Actuarial gains (losses) on post-employment benefits	35	(250)	-	-	-	-	-
Other comprehensive income (loss)	**59**	**(256)**	**(9)**	**(6)**	**(2)**	**(1)**	**-**
Comprehensive income	**425**	**252**	**253**	**267**	**284**	**284**	**287**
Comprehensive income attributable to:							
BDC's shareholder	419	242	248	254	275	282	282
Non-controlling interests	6	10	5	13	9	2	5
Comprehensive income	**425**	**252**	**253**	**267**	**284**	**284**	**287**

Strategic and Operating Review

Budget 2011 announced the Government's intention to undertake a Strategic and Operating Review (SOR) in 2011-12 to achieve annual fiscal savings by 2014-15. BDC is committed to adhering to the spirit and intent of the exercise and has undertaken a review of its operating expenses.

According to the Crown corporation Issue Note prepared by Treasury Board Secretariat in July 2011, non-appropriated Crowns, such as BDC, "need to focus on increasing operating efficiency and reducing controllable costs in all areas where appropriate, especially discretionary spending involving travel, hospitality, consulting, communications, advertising". Furthermore, Crown corporations "should clearly define their objectives…(and) these may be stated in terms of percentage reductions in controllable costs and/or improvements in key efficiency ratios".

Scope of Review for BDC

Improving efficiency has been an ongoing operational priority for BDC. Reported efficiency has improved significantly, from 50.6 percent in 2007 to 41.4 percent 2011, where a lower ratio reflects increased efficiency (the ratio is operating expenses divided by revenue). To respond to the SOR cost containment initiative, BDC created a task force to recommend to its senior management committee how it can:

- decrease its operating expenses, with a focus on discretionary spending
- lower its efficiency ratio (based on its current formula of expense to revenue) and other possible ratios that can be used to assess efficiency
- gain efficiencies in business processes and service delivery and what areas to explore over the medium term to achieve potential savings

All recommendations were made with due consideration to:

- maintaining current client-facing services and satisfaction levels
- maintaining employee engagement, and
- responding effectively to current Shareholder priorities and future requests.

Results of BDC Review

The task force recommended several reductions (based on 2012 forecast) in discretionary spending that are being implemented in fiscal year 2013, namely:

- 8 percent reduction in meals, travel and accommodation expenses;
- 15 percent reduction in advertising and promotional expenses; and
- 21 percent reduction in consulting-related expenses.

The task force also had an objective to improve BDC's adjusted[2] efficiency ratio (expense-to-revenue ratio). A low efficiency ratio means that higher efficiency is achieved as fewer dollars are spent to generate each dollar of revenue. BDC's adjusted efficiency ratio (which excludes pension and Quebec HST) is projected to decrease in 2012 and be stable in fiscal year 2013.

Following substantial effort on the part of BDC to improve efficiency over the past several years, this ratio has already decreased significantly from 50.6 percent in 2007.

FIGURE 14 | FINANCING OPERATING AND ADMINISTRATIVE EXPENSES – FINANCIAL FORECASTS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Total operating expenses	**303**	**318**	**338**
Less:			
Pension	*(25)*	*(28)*	*(40)*
Quebec HST incremental	-	-	*(1)*
Adjusted operating expenses[1]	**278**	**290**	**297**
Productivity statistics			
Total operating expenses as % of avg. portfolio	2.2%	2.1%	2.2%
Total operating expenses as % of avg. portfolio [1]	*2.0%*	*1.9%*	*1.9%*
Reported efficiency ratio	41.4%	41.1%	42.5%
Adjusted efficiency ratio[1]	*38.0%*	*37.5%*	*37.4%*
Employees (as at)			
Permanent	1,597	1,625	1,625
Leave of absence	51	62	62
Temporary	56	58	58
	1,704	**1,745**	**1,745**

[1]Excluding pension and Quebec HST

Capital Budget

In an effort to remain efficient and responsive to client needs, BDC invests in IT and in its facilities, which include 103 locations across Canada. In addition, BDC's initiative to review its business processes and technology platform (A&E program) started in fiscal 2008. Its aim is to enhance BDC's value proposition to its customers and improve operating efficiency.

FIGURE 15 | CAPITAL BUDGET ($M)

	Actual 2011	Estimate 2012	Proposed CP 2013-2017					Total 2013-2017
			2013	2014	2015	2016	2017	
Facilities	4	8	7	6	6	6	6	31
Information technology	9	8	11	11	11	12	12	57
Agility & efficiency (A&E)	3	16	21	21	1	-	-	43
Total	**16**	**32**	**39**	**38**	**18**	**18**	**18**	**131**

Projected Return on Common Equity (ROE)

BDC is required to achieve an ROE that is at least equal to the Government's long-term cost of capital. BDC aims to achieve a return on capital that is within or above the 10-year moving average returns for the Government of Canada three-year bonds.

At the time of writing, the 10-year moving average cost of capital was 2.7 percent for Canada three-year bonds. For fiscal year 2012, BDC expects its 10-year moving average ROE to be 7.5 percent due to positive returns in Financing. In fiscal year 2013, BDC projects a 10-year moving average ROE of 7.6 percent.

APPENDIX A TO THE FINANCIAL PLAN

The following table presents BDC's financial highlights for 2013. In fiscal 2013, BDC expects total revenues of $844 million and a net income of $262 million.

FIGURE 16 | CONSOLIDATED STATEMENT OF INCOME ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Interest income	941	965	956
Interest expense	113	120	120
Net interest income (expense)	**828**	**845**	**836**
Net realized gains (losses) on investments	(86)	33	(51)
Consulting revenue	25	24	25
Fee and other income	29	33	34
Net realized gains (losses) on other financial instruments	2	2	-
Net revenue (loss)	**798**	**937**	**844**
Impairment reversal (losses) on loans	(104)	11	(200)
Net change in unrealized appreciation (depreciation) of investments	75	(48)	38
Net unrealized foreign exchange gains (losses) on investments	(7)	11	-
Net unrealized gains (losses) on other financial instruments	(18)	(9)	(1)
Income (loss) before operating and administrative expenses	**744**	**902**	**681**
Operating and administrative expenses	378	394	419
Net income (loss)[1]	**366**	**508**	**262**
Net income (loss) attributable to:			
BDC's shareholder	360	498	257
Non-controlling interests	6	10	5
Net Income (loss)[1]	**366**	**508**	**262**
Dividends[2]	5	50	66
Capital budget	16	32	39
Employees number (as at the end of the period)	1,947	2,010	2,019
Business segment portfolio (as at the end of the period)	17,601	16,348	16,679

[1] Net income before OCI, refer to figure 14 for details

[2] Common dividends are declared, booked, and paid in the following fiscal year; preferred dividends are declared and booked

FIGURE 17 | TOTAL REVENUES BY BUSINESS LINE ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Financing	731	774	795
Subordinate Financing	34	53	52
Consulting	25	24	25
Venture Capital	(64)	39	(41)
Securitization	72	47	13
Net revenues	**798**	**937**	**844**

FIGURE 18 | OPERATING BUDGET – EXPENSES ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Financing	303	318	338
Subordinate Financing	17	19	20
Consulting	34	35	37
Venture Capital	22	20	22
CSCF	2	2	2
Total operating budget	**378**	**394**	**419**

FIGURE 19 | STATEMENT OF FINANCIAL POSITION ($M)

	Actual 2011	Estimate 2012	Proposed 2013
ASSETS			
Cash and cash equivalents	653	1,022	1,092
Loans and investments			
Asset-backed securities	3,069	751	470
Loan portfolio	14,506	15,331	15,908
Allowance for credit losses	(775)	(619)	(664)
Loan portfolio (net)	13,731	14,712	15,244
Subordinate financing investments	387	448	497
Venture capital investments	414	437	468
	17,601	16,348	16,679
Post-employment benefit assets	16	-	-
Other assets	130	283	293
Total assets	**18,400**	**17,653**	**18,064**
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	92	97	103
Borrowings			
Short-term notes	9,720	11,193	11,704
Long-term notes	4,405	2,197	1,937
	14,125	13,390	13,641
Preferred shares	230	-	-
Post-employment benefit liability	128	326	308
Other liabilities	65	74	77
Total liabilities	**14,640**	**13,887**	**14,129**
Equity			
Share capital	2,514	2,088	2,088
Contributed surplus	28	28	28
Retained earnings at beginning of year	685	1,046	1,504
Net income	366	508	262
Dividends declared	(5)	(50)	(66)
Retained earnings	1,046	1,504	1,700
Accumulated other comprehensive income	25	19	10
Equity attributable to BDC's shareholder	3,613	3,639	3,826
Non-controlling interests	147	127	109
Total equity	**3,760**	**3,766**	**3,935**
Total liabilities and equity	18,400	17,653	18,064
Debt/equity ratio	3.6	3.6	3.5

FIGURE 20 | PROJECTED STATEMENT OF CASH FLOWS ($M)

	Actual 2011	Estimate 2012	Proposed 2013
Net cash flows provided by operating activities	(795)	(326)	(242)
Net cash flows used in investing activities	121	2,179	142
Net cash flows provided by financing activities	304	(1,484)	170
Net increase in cash & cash equivalents	**(370)**	**369**	**70**
Cash & cash equivalents at beginning of year	1,023	653	1,022
Cash & cash equivalents at end of year	**653**	**1,022**	**1,092**

APPENDIX B TO THE FINANCIAL PLAN: INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) announced that all Canadian publicly accountable enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

Consequently, first reporting under IFRS is required for BDC's interim and annual financial statements beginning on April 1, 2011. These statements will also include comparative fiscal year 2011 financial results restated to comply with IFRS.

The IFRS impacts discussed in this corporate plan are based on current IFRS. BDC continues to monitor standards not yet applicable to BDC or to be issued by the IASB. Refer to *Future accounting changes section* of this appendix for further details.

Reconciliations of Canadian GAAP to IFRS

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income. The Notes column refers to the notes to the reconciliations, which begin on page 66.

FIGURE 21 | RECONCILIATION OF CONSOLIDATED EQUITY ($M)

As at	Notes	March 31, 2011	April 1, 2010
Shareholder's equity under Canadian GAAP		4,008	3,643
Differences increasing (decreasing) retained earnings:			
Post-employment benefits	A	(166)	(219)
Other	D	1	1
		(165)	**(218)**
Reclassification of preferred shares in liabilities	C	(230)	(230)
Equity attributable to BDC's shareholder under IFRS		**3,613**	**3,195**
Non-controlling interests			
Joint ventures	B	139	171
Investments controlled by BDC	B	8	6
Equity attributable to non-controlling interests under IFRS		**147**	**177**
Consolidated equity under IFRS		**3,760**	**3,372**

FIGURE 22 | RECONCILIATION OF CONSOLIDATED NET INCOME ($M)

	Notes	March 31, 2011
Consolidated net income under Canadian GAAP		347
Differences increasing (decreasing) net income:		
Post-employment benefits	A	18
Dividends on preferred shares included in net income	C	(5)
		13
Net income attributable to BDC's shareholder under IFRS		**360**
Impact of consolidation of:		
Joint ventures	B	9
Investments controlled by BDC	B	(3)
Net income attributable to non-controlling interests under IFRS		**6**
Consolidated net income under IFRS		**366**

FIGURE 23 | RECONCILIATION OF CONSOLIDATED COMPREHENSIVE INCOME ($M)

For the year ended	Notes	March 31, 2011
Consolidated comprehensive income under Canadian GAAP		371
Differences increasing (decreasing) comprehensive income:		
Increase in net income attributable to BDC's shareholder		13
Actuarial gains (losses) on post-employment benefits	A	35
		48
Comprehensive income attributable to BDC's shareholder under IFRS		**419**
Increase in net income attributable to non-controlling interests		6
Comprehensive income attributable to non-controlling interests under IFRS		**6**
Consolidated comprehensive income under IFRS		**425**

Notes to the reconciliations

These notes explain the significant differences shown in the reconciliations between Canadian GAAP and IFRS.

A – POST-EMPLOYMENT BENEFITS

(i) Actuarial gains and losses

Canadian GAAP: Actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, BDC determined whether the cumulative actuarial gain or loss was more than 10% of the greater of the fair value of the pension plan assets or the defined benefit obligation. Any amount that exceeded this 10 percent corridor was amortized through the income statement over the average remaining service period of active employees. Amounts that fell within the 10 percent corridor were not amortized.

IFRS: Under IFRS, three options are available to account for actuarial gains and losses: (i) the "corridor" approach; (ii) immediate recognition in net income; or (iii) immediate recognition in other comprehensive income (OCI). Of these three options, BDC has elected to recognize all actuarial gains and losses immediately in OCI. These gains and losses are transferred immediately to retained earnings at the end of each period.

Impact on financial statements: Upon transition to IFRS, existing unamortized net actuarial losses were recognized in opening retained earnings. As a result, the post-employment benefit asset of $145.4 million that existed under Canadian GAAP as at March 31, 2010, was derecognized and an additional post-employment benefit liability of $82.5 million was recognized. Consequently, opening retained earnings decreased by $227.9 million. Subsequent to transition, the amortization component of net actuarial losses is no longer included in post-employment benefits expense and actuarial gains and losses are immediately recognized in OCI.

(ii) Attribution period

Canadian GAAP: The attribution period for recognizing the liability relating to post-employment benefits began at the hiring date of the employee, as this date normally represents the date at which the service provided by employees starts to give rise to benefits.

IFRS: Under IFRS, the benefits are attributed to periods of service under the plan's benefit formula. For long-term benefit plans that contain both an age-based vesting requirement and a vesting requirement of consecutive years of service immediately before retirement, the attribution period begins only when the employee commences working in periods that can be counted as consecutive years of service before retirement. As BDC's other post-employment benefit plans contain both requirements, the attribution period was revised at transition to IFRS.

Impact on financial statements: Upon transition, the adjustment resulting from the change in the attribution period resulted in a decrease in the post-employment benefit liability of $11.7 million and an equivalent increase in opening retained earnings. Subsequent to transition, the impact of the change in attribution period is not significant.

(iii) Measurement date

Canadian GAAP: The measurement date of the defined benefit obligation and plan assets could have been up to three months prior to the date of the financial statements, provided that the entity applied this practice consistently from year to year. BDC measured the defined benefit obligation and plan assets related to pension plans as of December 31, thus utilizing the three-month gap permitted in the standards.

IFRS: IFRS requires that the defined benefit obligation, as well as the fair value of plan assets, be determined as of the date of the financial statements. IFRS requires that the results of any valuation carried out prior to that date be updated for any material transactions and other material changes in circumstances.

Impact on financial statements: Upon transition, BDC re-measured its defined benefit obligation and plan assets related to pension plans as at April 1, 2010. As shown in the table presented below, the impact of this difference is not significant and is included in the total adjustment for post-employment benefits.

(iv) Past service costs

Canadian GAAP: Immediate recognition for vested benefits was not permitted and past service costs were amortized by assigning an equal amount to each remaining service period.

IFRS: Under IFRS, immediate recognition for vested benefits is required, and unvested past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

Impact on financial statements: Upon transition, BDC recognized all vested past service costs. As shown in the table presented below, the impact of this difference is not significant and is included in the total adjustment for post-employment benefits.

The impact of these changes is summarized as follows:

Differences increasing (decreasing) retained earnings as at April 1, 2010:	
Actuarial gains and losses	(228)
Attribution period	12
Measurement date	(3)
Impact on equity as at April 1, 2010	**(219)**
Increase in Fiscal 2011 net income related to post-employment benefits	18
Increase in Fiscal 2011 OCI related to actuarial gains on post-employment benefits	35
Impact on equity as at March 31, 2011	**(166)**

B – CONSOLIDATION

(i) Joint ventures

Canadian GAAP: BDC holds a portion of its subordinate financing portfolio through investment funds held jointly with the Caisse de dépôt et placement du Québec (AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc.). Under Canadian GAAP, these funds were proportionately consolidated into BDC's Consolidated Financial Statements by virtue of the fact that they are joint ventures.

IFRS: Based on the definition of control under IFRS, BDC has concluded that it has the power to govern the financial and operating policies of these funds so as to obtain benefits from their activities, and consequently must consolidate them into BDC's Consolidated Financial Statements upon conversion to IFRS. Because BDC is assessed as having control, these funds can no longer be accounted for as joint ventures.

Impact on financial statements: Upon transition, the full consolidation of these investment funds increased assets and liabilities by $173.8 million and $3.3 million, respectively. Non-controlling interests of $170.5 million are now presented within equity and there is no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100 percent of the subsidiaries' net income, including the portion attributable to non-controlling interests.

(ii) Venture capital and subordinate financing

Canadian GAAP: Venture capital and subordinate financing investments were measured and presented at fair value in accordance with Accounting Guideline 18 (AcG-18), *Investment companies*. Consequently, they were not consolidated into BDC's Consolidated Financial Statements.

IFRS: Under IFRS, BDC must consolidate investments over which it exercises control. After analysis of subordinate financing and venture capital investments, it has been determined that three investments must be consolidated.

Impact on financial statements: Upon transition, consolidation of these investments resulted in an increase in assets of $6.1 million and an increase in liabilities of $0.1 million. Non-controlling interests, presented within equity, increased by $6.0 million. There was no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100 percent of the net income of these entities, including the net income attributable to non-controlling interests.

C – RECLASSIFICATION OF PREFERRED SHARES

Canadian GAAP: As per Canadian GAAP, BDC's preferred shares were classified as equity instruments.

IFRS: Under IFRS, BDC's preferred shares need to be classified as a combined instrument, with a liability and an equity component, given that they have a feature that requires a non-discretionary annual dividend payment at a rate that is periodically adjusted to the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares. The equity component represents the residual amount, if any, after deducting the fair value assigned to the liability component.

BDC's preferred shares were reclassified from equity to liabilities upon conversion to IFRS and no residual value was assigned to the equity component. In addition, since the preferred shares are classified as a liability, the dividends are recognized in net income as interest expense.

Impact on financial statements: Upon transition, preferred shares of $230 million were reclassified from equity to liabilities. Subsequent to transition, dividends on preferred shares were recognized in net income as interest expense.

D – OTHER DIFFERENCES

Other differences and reclassifications were recorded as a result of the transition to IFRS. Individually, and collectively, none of these adjustments were considered significant to the Consolidated Statement of Financial Position or to the Consolidated Statement of income.

Reconciliation of Consolidated Statement of Financial Position and Income from Canadian GAAP to IFRS

The following reconciliations illustrate the reclassifications and adjustments from Canadian GAAP to IFRS to the Consolidated Statement of Financial Position as at March 31, 2011 and April 1, 2010.

FIGURE 24 | RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ($000)

	Notes	GAAP March 31, 2010	Reclassification for presentation purposes	IFRS adjustments other than consolidation	IFRS adjustment related to consolidation (Note B)	IFRS April 1, 2010
ASSETS						
Cash and cash equivalents		**1,014**	–	–	9	**1,023**
Loans and investments						
Asset-backed securities		**3,275**	2	–	–	**3,277**
Loans		**12,526**	–	–	–	**12,526**
Subordinate financing investments		**193**	–	–	165	**358**
Venture capital investments		**362**	–	–	6	**368**
		16,356	2	–	171	**16,529**
Post-employment benefit asset	A	**145**	–	(145)	–	**–**
Other assets		**165**	(2)	–	–	**163**
Total assets		**17,680**	–	(145)	180	**17,715**
LIABILITIES AND EQUITY						
Liabilities						
Accounts payable and accrued liabilities	D	**72**	–	(1)	3	**74**
Accrued interest on borrowings		**12**	(12)	–	–	**–**
Borrowings						
Short-term notes		**5,558**	1	–	–	**5,559**
Long-term notes		**8,166**	11	–	–	**8,177**
		13,724	12	–	–	**13,736**
Preferred shares	C	**–**	–	230	–	**230**
Post-employment benefit obligation	A	**113**	–	74	–	**187**
Other liabilities		**116**	–	–	–	**116**
Total liabilities		**14,037**	–	303	3	**14,343**
Equity						
Share capital	C	**2,744**	–	(230)	–	**2,514**
Contributed surplus		**28**	–	–	–	**28**
Retained earnings		**870**	–	(218)	–	**652**
Accumulated other comprehensive income		**1**	–	–	–	**1**
Equity attributable to BDC's shareholder		**3,643**	–	(448)	–	**3,195**
Non-controlling interests		–	–	–	177	**177**
Total equity		**3,643**	–	(448)	177	**3,372**
Total liabilities and equity		**17,680**	–	(145)	180	**17,715**

FIGURE 25 | RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ($000)

	Notes	GAAP March 31, 2011	Reclassification for presentation purposes	IFRS adjustments other than consolidation	IFRS adjustment related to consolidation (Note B)	IFRS March 31, 2011
ASSETS						
Cash and cash equivalents		**644**	–	–	10	**654**
Loans and investments						
Asset-backed securities		**3,066**	3	–	–	**3,069**
Loans		**13,731**	–	–	–	**13,731**
Subordinate financing investments		**250**	–	–	137	**387**
Venture capital investments		**408**	–	–	6	**414**
		17,455	3	–	143	**17,601**
Post-employment benefit asset	A	**170**	–	(154)	–	**16**
Other assets		**131**	(3)	–	1	**129**
Total assets		**18,400**	–	(154)	154	**18,400**
LIABILITIES AND EQUITY						
Liabilities						
Accounts payable and accrued liabilities	D	**86**	–	(1)	7	**92**
Accrued interest on borrowings		**10**	(10)	–	–	**–**
Borrowings						
Short-term notes		**9,716**	4	–	–	**9,720**
Long-term notes		**4,399**	6	–	–	**4,405**
		14,115	10	–	–	**14,125**
Preferred shares	C	**–**	–	230	–	**230**
Post-employment benefit obligation	A	**116**	–	12	–	**128**
Other liabilities		**65**	–	–	–	**65**
Total liabilities		**14,392**	–	241	7	**14,640**
Equity						
Share capital	C	**2,744**	–	(230)	–	**2,514**
Contributed surplus		**28**	–	–	–	**28**
Retained earnings		**1,211**	–	(165)	–	**1,046**
Accumulated other comprehensive income		**25**	–	–	–	**25**
Equity attributable to BDC's shareholder		**4,008**	–	(395)	–	**3,613**
Non-controlling interests		–	–	–	147	**147**
Total equity		**4,008**	–	(395)	147	**3,760**
Total liabilities and equity		**18,400**	–	(154)	154	**18,400**

The following reconciliation illustrates the restatements from Canadian GAAP to IFRS to the Consolidated Statement of Income for the year ended March 31, 2011.

FIGURE 26 | RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME ($000)

	Notes	GAAP 2011	IFRS adjustments other than consolidation	IFRS adjustment related to consolidation (Note B)	IFRS 2011
Interest income	D	**915**	7	19	**941**
Interest expense	C	**108**	5	–	**113**
Net interest income		**807**	2	19	**828**
Net realized gains (losses) on investments		**(76)**	–	(10)	**(86)**
Consulting revenue		**25**	–	–	**25**
Fee and other income		**32**	–	(3)	**29**
Net realized gains (losses) on other financial instruments		**2**	–	–	**2**
Net revenue		**790**	2	6	**798**
Impairment losses on loans	D	**(97)**	(7)	–	**(104)**
Change in unrealized appreciation (depreciation) of investments		**74**	–	1	**75**
Unrealized foreign exchange gains (losses) on investments		**(7)**	–	–	**(7)**
Net unrealized gains (losses) on other financial instruments		**(18)**	–	–	**(18)**
Income before operating and administrative expenses		**742**	(5)	7	**744**
Salaries and benefits	A	**258**	(18)	1	**241**
Premises and equipment		**37**	–	–	**37**
Other expenses		**100**	–	–	**100**
Operating and administrative expenses		**395**	(18)	1	**378**
Net income		**347**	13	6	**366**
Net income attributable to:					
BDC's shareholder		**347**	13	–	**360**
Non-controlling interests		–	–	6	**6**
Net income		**347**	13	6	**366**

Material adjustments to the Consolidated Statement of Cash Flows

Following the transition to IFRS, disbursements and repayments of loans have been classified as operating activities. Under previous Canadian GAAP, cash flows relating to loans were classified as cash flows from investing activities.

Furthermore, interest paid and interest received is now presented as separate line items in the Consolidated Statement of Cash Flows under operating activities.

The consolidation of BDC's subsidiaries has also affected the cash flows provided by operating, investing and financing activities. The impact is not significant for any category of cash flow.

There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows previously presented under Canadian GAAP.

Future accounting changes

Information on new standards, amendments and interpretations that are not yet effective but are expected to impact BDC's financial results is provided below.

These pronouncements are currently being assessed to determine their impact on BDC's Consolidated Financial Statements. Certain other new standards, amendments and interpretations have been issued but are not yet effective and are not expected to have a significant impact on BDC's financial results.

Financial instruments

In October 2010, the International Accounting Standards Board (IASB) released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This first part only covers recognition and derecognition, classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The IASB has recently issues an amendment to IFRS 9 to postpone the mandatory effective date to January 1, 2015.

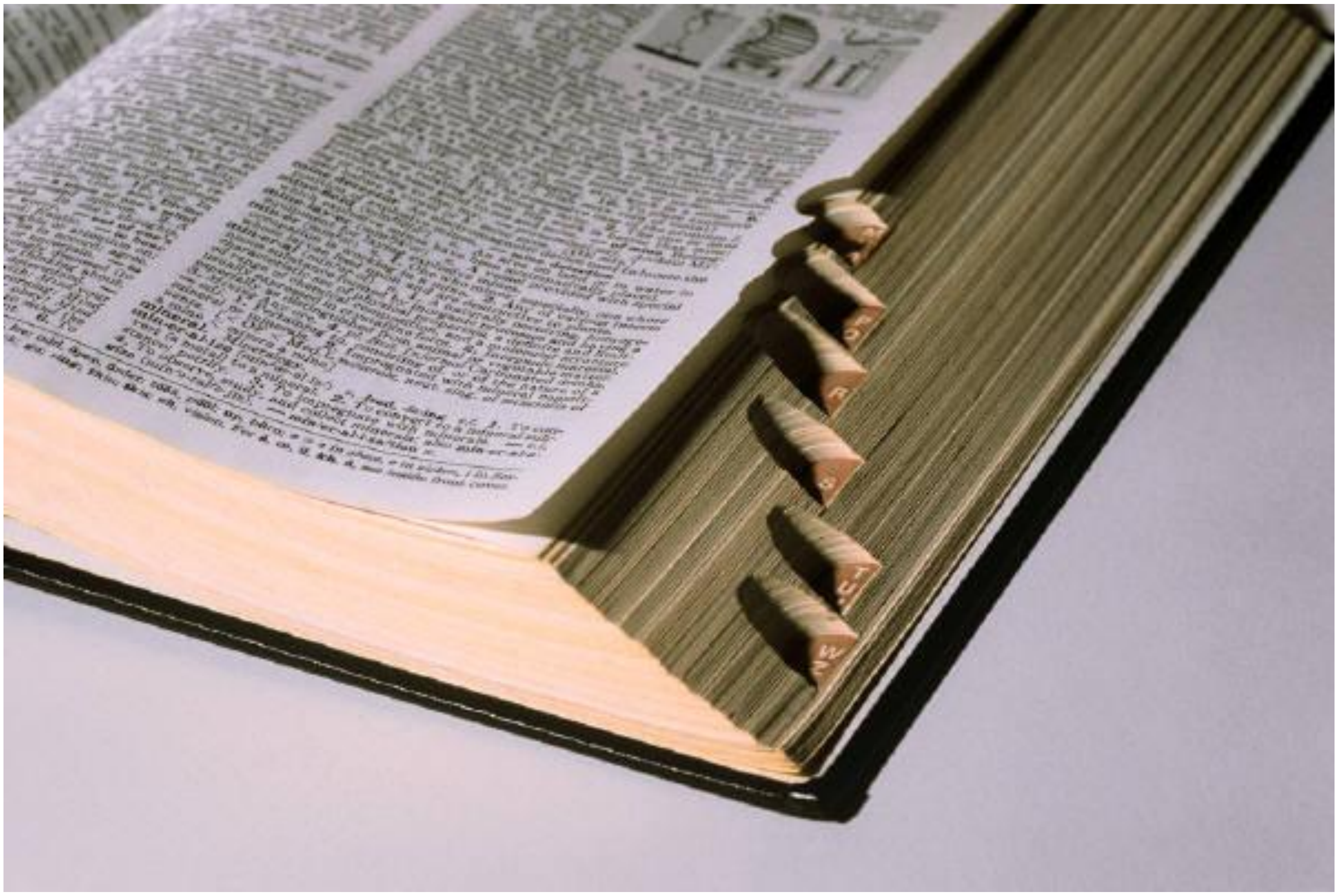
Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, *Employee Benefits*. The amendment will require immediate recognition of all changes in plan assets and liabilities. Therefore, actuarial gains and losses will be recognised immediately in OCI (which will have no impact on BDC as it is our current method of recognition) and all past service costs will be recognised in the period in which the plan amendment occurs.

In addition, the expected return on plan assets and the interest cost on the pension obligation will be replaced with a measure of net interest income/expense on the net surplus or deficit in the plan, based on the plan's discount rate.

This amendment will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

GLOSSARY



GLOSSARY OF ABBREVIATIONS AND DEFINED TERMS

A&E	Agility & Efficiency Program
ABS	Asset-Backed Securities
ABU	Aboriginal Banking Unit
Acceptances	The point at which the client has accepted the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions, after client acceptance.)
ACE	Advancing Canadian Entrepreneurship organization
AcG	Accounting Guideline
ADFIAP	Association of Development Financing Institutions in Asia
ALIDE	Latin American Association of Development Financing Institutions
Authorizations (Financing and VC)	The point at which BDC has completed its due diligence and has approved the financing request or VC investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)
BCAP	Business Credit Availability Program
BDC	Business Development Bank of Canada
Board	BDC's Board of Directors, made up of 12 directors representing Canada from coast to coast
CanNor	Canadian Northern Economic Development Agency
CBP	Consolidated Borrowing Program
CEFRIO	Centre facilitant la recherche et l'innovation dans les organisations
CFDC	Community Futures Development Corporation
CFIB	Canadian Federation of Independent Business
CFLA	Canadian Financing & Leasing Association
CICA	Canadian Institute of Chartered Accountants
CME	Canadian Manufacturers & Exporters
Commitment (Financing)	Undisbursed amounts of authorized loans, after cancellations and reductions
Commitment (VC)	Cost plus undisbursed authorized amounts
CP	Corporate Plan
CSCF	Canadian Secured Credit Facility
CVCA	Canadian Venture Capital Association
CYBF	Canadian Youth Business Foundation
DFAIT	Department of Foreign Affairs and International Trade Canada
Disbursements (Financing and VC)	Represents the actual money disbursed.
EDC	Export Development Canada
EEB	École d'Entrepreneurship de la Beauce
EEEM	Energy, Environment, Electronics and Materials
ERM	Enterprise Risk Management
FCC	Farm Credit Canada
FDI	Statistics Canada's Financial Data Initiative (FDI)
FedDev	Federal Economic Development Agency for Southern Ontario
FI	Financial institution
FITT	Forum for International Trade Training
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GP	General Partner
IASB	International Accounting Standards Board
IBOC	DFAIT's International Business Opportunities Centre
ICT	Information and communications technologies
IFRS	International Financial Reporting Standards

IRIC	Industrial Research and Innovation Council
IMF	International Monetary Fund
INAC	Indian and Northern Affairs Canada
IPO	Initial Public Offering
IRR	Internal rate of return
ISO	International Standardization Organisation
IT	Information Technology
JA	Junior Achievement
LP	Limited Partner
M&A	Mergers and Acquisitions
M&E	Machinery and Equipment
MOU	Memorandum of Understanding
MP	Managing Partner
MSPSO	Multi-seller Platform for Small Originators
NACO	National Angel Capital Organization
NRC	National Research Council
NSERC	Natural Sciences and Engineering Research Council of Canada
OCI	Other comprehensive income
R&D	Research and Development
ROC	Return on capital
ROE	Return on equity. BDC's mandate requires that its ROE be at least equal to the Government's average long-term cost of capital
SIEM	Security Information and Event Management software
SII	Strategic Initiatives and Investments group
SMC	Senior Management Committee
SME	Small and medium-sized enterprises, defined by Industry Canada as 500 employees or less. With but a few exceptions, all of BDC's clients are SMEs
SOR	(Federal Government's) Strategic and Operating Review
SR&ED	Scientific Research and Experimental Development
STIC	Science Technology and Innovation Council
VC	Venture Capital
WEO	World Economic Outlook
YEA	Young Entrepreneur Awards