BDC

2008 ANNUAL REPORT

REALATIONSHIPS

"WE SELL CHAIRS TO THE WORLD.

BDC IS HELPING US."

Mike Keilhauer
President
Keilhauer
Scarborough, Ontario
BDC client since 1994

Canada

"We wanted a new building that reflected our image and competence as an upscale office furniture design company. BDC helped us finance that initiative. They understood that our project was not just another building – it represented our brand. Over the years, we've focused our efforts on developing the North American market, exporting largely to Fortune 500 companies. As these businesses expand throughout the world, we've been able to access the global market."

— Mike Keilhauer

REAL CHALLENGES THE COMPETITIVE ENVIRONMENT

THERE ARE MORE THAN ONE MILLION EMPLOYER BUSINESSES IN CANADA

Industry Canada's definition of small and medium-sized enterprises (SMEs):
a small enterprise has up to 99 employees; a medium-sized enterprise has 100 to 500 employees.

In general, and compared to most countries, Canada remained in fiscal 2008 a healthy place to create and grow businesses. We continued to enjoy one of the fastest growth rates and highest living standards among industrialized countries. We had a fiscal surplus, a declining public debt and historically low inflation.

But last year also saw uncertainty. Market liquidity shrank, reducing the availability of affordable money. The rise in the value of the Canadian dollar hampered exporters' ability to export. Financial markets made it hard for companies to raise capital at attractive prices. Most businesses were affected; many were strained to stay competitive.

97.5%
ARE SMALL

2.2%
ARE MEDIUM-SIZED

0.3%
ARE LARGE

A COMPLEX, CHANGING AND TOUGH ENVIRONMENT

A GLOBAL ECONOMY

Larger, more productive workforces and growing middle classes in countries such as China and India are a threat and an opportunity for Canada's entrepreneurs. New global supply chains are an unavoidable feature of the globalized economy; entrepreneurs must enter them and compete.

RAPIDLY RISING AND STRONG CANADIAN DOLLAR

Our strong dollar makes manufactured goods and services more expensive for foreigners to buy. But it does reduce the cost of importing machinery and equipment that enhance productivity.

AN ECONOMIC SLOWDOWN IN THE UNITED STATES

Canada exports half of its services and three quarters of its goods to America. The 2008 slowdown in the American economy will inevitably be felt in Canada, as American consumers buy less.

AN AGING POPULATION

Canada's greying population makes it harder for entrepreneurs to find qualified employees. Entrepreneurs are aging, too, and must find younger entrepreneurs and business managers to whom they can sell their businesses.

HIGH ENERGY COSTS

All businesses need energy to function, and not all energy cost increases can be handed on to consumers. Entrepreneurs must adapt their business models and operations to be more energy efficient.

REAL IMPACT BDC FINANCING

Pierre Paschini
President and Chief Operating Officer
ADF Group Inc.
Terrebonne, Quebec
BDC client since 1997

"We're a North American leader in the design, engineering, fabrication and installation of complex steel superstructures, such as the Goldman Sachs world headquarters in New York. Like most businesses, we've had challenging periods with cash flow. BDC has always gone the extra mile for us. They showed their flexibility by adjusting our loan payment schedule. BDC believed in our management team. Today, we're in full swing and rapidly growing."

REAL IMPACT BDC FINANCING

Rod Nicolls
Operations Manager

Nicole Stefenelli
President

Urban Impact Recycling Ltd.
Richmond, B.C.
BDC client since 2000

"We wanted to work with an organization that shared our passion for innovation. From the get-go, BDC saw our potential as an innovative company that is helping conserve our planet's resources. When it comes to financing, BDC always delivers creative solutions."

WHAT WE DO

We promote entrepreneurship by providing financing, investments and consulting to Canada's entrepreneurs.

WHY WE DO IT

When entrepreneurs succeed, they make an irreplaceable contribution to Canada's economy. The result is greater prosperity.

WHO WE ARE

We are Canada's small business development bank, created by and accountable to Parliament.

OUR VISION

Accelerate entrepreneurs' success.

OUR MISSION

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial, venture capital and consulting services.


CHAIRMAN'S MESSAGE
REALSTEWARDSHIP

BDC IS NOW SERVING 28,000 ENTREPRENEURS. THESE ENTREPRENEURS STRENGTHEN CANADA'S ECONOMY.

I joined the Board of Directors of BDC in August 2007. It was an honour to become part of the only financial institution in the country that is solely dedicated to supporting entrepreneurship.

As directors, we are stewards, accountable to Parliament through the Minister of Industry. We oversee BDC to ensure that it does what it was created to do: promote entrepreneurship by supporting small and medium-sized businesses in a way that complements the services other financial institutions offer. We ensure that it does so effectively, responsibly and efficiently.

Our role is to:

- approve BDC's strategic direction and corporate plan, and monitor progress;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- establish compensation policies, and review and approve management's succession plan (a task that includes approving the appointment of senior managers and evaluating their performance);
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans, and establish its fund policies and practices; and
- ensure the highest standards of corporate governance.

We are committed to achieving excellence in governance for BDC. I encourage you to read our board report on page 78. It outlines the principal statutes, structures, systems and practices that rule BDC, as well as the highlights of our accomplishments last year.

BDC had an excellent year in terms of its public policy mandate: it provided support to an increasing number of Canadian businesses.

OUR FOCUS IS STRATEGIC: BDC IS DEDICATED TO HELPING ENTREPRENEURS TACKLE THEIR CHALLENGES AND EXPLOIT THEIR OPPORTUNITIES.

There are many such challenges; the past year saw increased competition from other countries, a sudden rise in the value of the Canadian dollar, a tightening of credit conditions triggered by the asset-backed commercial paper crisis, higher energy costs and a slowing American economy. It also saw continued problems in Canada's crucial but fledgling venture capital industry.

The past year also saw opportunities: opportunities to enter global supply chains and markets, opportunities to use the strong Canadian dollar to invest in productivity, and opportunities to innovate and commercialize research.

BDC operated profitably in fiscal 2008 but financial results were mixed. Financing and Subordinate Financing were profitable. Consulting operated at a loss that was as budgeted.

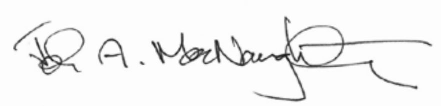
The venture capital portfolio had a significant loss. Canada's economy needs venture capital investments; they are an important public policy imperative. But they are also inherently highly risky. BDC's venture capital loss is partly rooted in – and in some ways a barometer of – Canada's deeply troubled venture capital industry.

BDC is a flexible, efficient arm of public policy; we look to management to ensure that it continues to support entrepreneurs who need venture capital. However, we also look to management to ensure that BDC does so in a way that protects its own commercial viability.

I would like to acknowledge those of our colleagues who left the Board during fiscal 2008: Trevor Adey, Léandre Cormier, Leo Ledohowski and Valerie Payn. My colleagues and I thank them for their contribution and wish them well. We would also like to welcome three new members: Eric Boyko, Rick Perkins and Thomas R. Spencer.

Also, just after year-end, three of our members departed: Cynthia Bertolin, Andrina Lever and Kelvin Ng. We appreciate their hard work and wish them all the best. They have been succeeded by Sue Fawcett, Sarah Raiss and Rosemary Zigrossi.

Finally, I wish to thank Parliament for the privilege of serving on the Board of BDC. Being part of its contribution to Canadian society is an honour as well as a responsibility.



John A. MacNaughton
Chairman

PRESIDENT'S MESSAGE

REALDEVELOPMENT

WE SUCCEED WHEN OUR CLIENTS SUCCEED. THE RESULT: GREATER PROSPERITY FOR CANADA.

Ambitious, risk-taking entrepreneurs are the basis of a vital, healthy economy. To succeed, they need support from advisors, accountants and lawyers. To meet financial needs, they seek financial sector partners. BDC is one of these.

We offer financing, investments and consulting that are driven by their needs as entrepreneurs – support of the highest standard possible. I trust you will find this report answers your questions about how we are doing so effectively, responsibly and efficiently.

Our financing services complement those of private sector financial institutions. We are commercially viable and do not receive an annual subsidy from Parliament.

ENTREPRENEURS

We are Canada's small business development bank. We are reaching 28,000 entrepreneurs across the country – helping them with their projects, helping them innovate and supporting them through unexpected strains such as the tightened credit conditions that characterized much of the past year.

Our clients value our services. Their satisfaction rate, measured by a third-party survey, is 93%.

We provide innovative small business financing, paying special attention to start-ups, innovators, fast growth companies, manufacturers and exporters who face lower financing approval rates. We offer support services to the growing number of entrepreneurs who will be retiring and selling their businesses to other, younger entrepreneurs. We help Canadian companies become more globally competitive.

We pay particular attention to entrepreneurs who are working to commercialize the fruits of research and development – university or lab discoveries – to create innovative products and globally successful companies. Canada needs globally successful SMEs that specialize in sectors such as life sciences and information technology. Commercializing innovative ideas is complex, difficult and *very* risky; success takes years, millions of dollars and a sequenced range of separate, sophisticated skills. Hence our support.

FINANCIAL SUSTAINABILITY

We had strong results in Financing and Subordinate Financing, expected results in Consulting and a higher than expected loss in our venture capital portfolio, a reflection of the difficult period that this industry is enduring.

Our total portfolio is $10.6 billion. Most of this, $10.0 billion, is in loans; it also includes $156 million in subordinate financing and $476 million in venture capital equity investments. Our consulting revenues reached $24.8 million this year.

Our return on common equity was 4.7%. This will enable a dividend payment of $16.5 million to our sole shareholder, the Government of Canada. Since 1997, we have also paid $140.2 million in dividends.

EMPLOYEES

We were pleased to receive several awards last year, notably for our human resources practices. We are out to create the most attractive workplace and effective team possible, and thereby provide strong support for entrepreneurs. Awards are third-party validation that we are, to a significant degree, succeeding in doing so. I invite you to read more at www.bdc.ca.

THE BDC TEAM

I continue to be impressed by the talent, professionalism and dedication of the BDC team. Parliament can count on its effective, responsible and efficient support of Canada's entrepreneurs.

Jean-René Halde
President and Chief Executive Officer

KEY PERFORMANCE INDICATORS AND OBJECTIVES **REAL**PERFORMANCE

We turn our strategies into balanced performance measurements.

CLIENTS

Create a unique and valued relationship with Canadian entrepreneurs, so that we can support their business projects and accompany their growth (measured by client satisfaction).

EMPLOYEES

Foster a culture of engagement, learning and growth (measured by employee engagement).

EFFICIENCY

Maintain effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

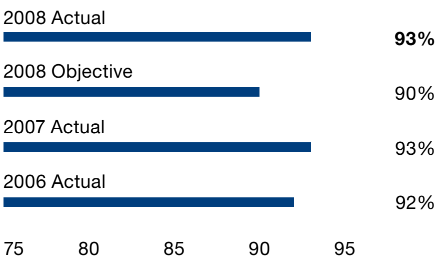
FINANCIAL SUSTAIN-ABILITY

Fulfill our mandate: be profitable to fund the growth of our portfolio, generate a return on common equity (ROE) at least equal to the government's average long-term cost of capital and be able to withstand unfavourable economic circumstances without requiring government funding (measured by ROE).

CLIENT SATISFACTION

We offer our clients tailored financial services, information and advice. Our emphasis on helpful, long-term relationships has produced an overall client satisfaction rating of 93%.

PERFORMANCE



2009 OBJECTIVE

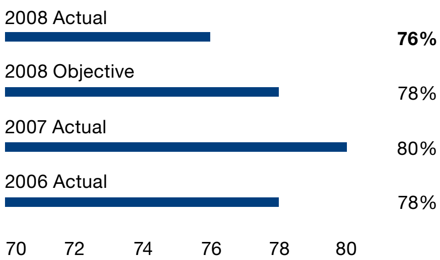
91%

- An increase of 1 percentage point from 2008 objective.

EMPLOYEE ENGAGEMENT

We seek employees whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served. Our employee engagement level is 76%. This is a 4 percentage point decline from fiscal 2007 but is on par with the most recent engagement scores among best employers.

PERFORMANCE



2009 OBJECTIVE

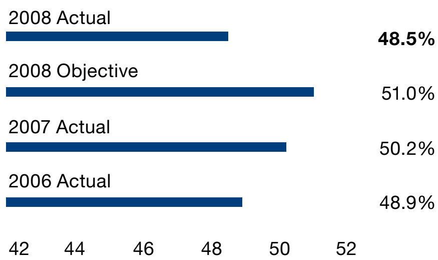
80%

- An increase of 2 percentage points from 2008 objective.

EFFICIENCY RATIO*

Our efficiency ratio of 48.5% is 2.5 percentage points better than the 2008 objective, due in part to lower operating and administrative expenses as a result of management's focus on cost containment and improvements in lending processes.

PERFORMANCE



2009 OBJECTIVE

50.1%

- An improvement of 0.9 percentage points from 2008 objective.

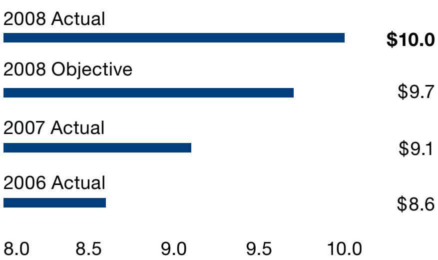
* *The lower the ratio, the greater the efficiency.*

OUTSTANDING BDC FINANCING PORTFOLIO

$ in billions

The BDC Financing loan portfolio rose by $0.9 billion to $10.0 billion, due to $2.9 billion in loan acceptances and a net increase of nearly 800 entrepreneurs benefiting from our expertise and support.

PERFORMANCE/ FINANCIAL SUSTAINABILITY



2009 OBJECTIVE

$10.4 B

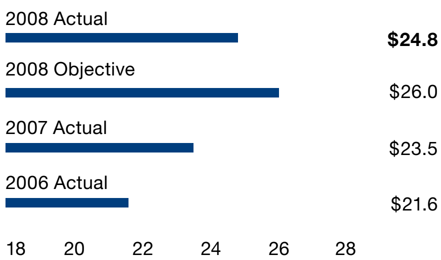
- Grow the portfolio by $0.4 billion from the result achieved in fiscal 2008.

BDC CONSULTING REVENUE

$ in millions

At $24.8 million, this figure is $1.2 million short of our objective, but 5.5% higher than last year.

PERFORMANCE/ FINANCIAL SUSTAINABILITY



2009 OBJECTIVE

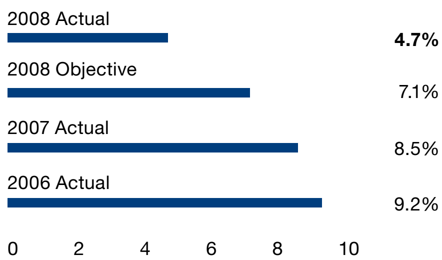
$26 M

- Offer entrepreneurs tailored, quality services at a price they can afford.

RETURN ON COMMON EQUITY (ROE)

Our ROE of 4.7% is lower than both our objective of 7.1% and last year's 8.5%. The shortfall is due to the loss in our venture capital portfolio. However, our ROE remains higher than the government's average long-term cost of capital of 4.0%.

PERFORMANCE/ FINANCIAL SUSTAINABILITY



2009 OBJECTIVE

6.3%

- Exceed the government's estimated average long-term cost of capital of 3.2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

1.

ROLE, STRATEGY AND ACTIVITIES

EMPLOYEES	1,700
BRANCHES ACROSS CANADA	94
BUSINESS LINES	4
MANDATE	1

SUPPORT CANADIAN ENTREPRENEURS

AN APPETITE FOR RISK:

Entrepreneurs need partners who share their willingness to take risks.

BDC SUPPORTS RISK.

—

CREDIT STABILITY:

Entrepreneurs need partners they can count on long term.

BDC IS PATIENT.

—

WHEN THEY SUCCEED, ENTREPRENEURS MAKE AN IRREPLACEABLE CONTRIBUTION TO CANADA'S ECONOMY.

BDC IS HERE TO HELP THEM SUCCEED.

Pierre Lauzon / Manager, Major Accounts
Bettie Johnston / Partner, Consulting
Stephen Korte / Vice President, Enterprise Risk Management
Susan Rohac / Managing Director, Subordinate Financing
Gary Bantle / Director, Venture Capital

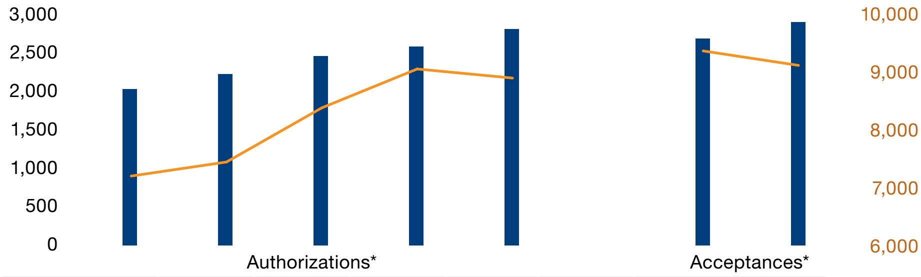
ROLE

In 1995, Parliament passed the *Business Development Bank of Canada Act.* The Act created BDC to promote entrepreneurship by providing complementary financing and consulting services, giving particular consideration to the needs of small and medium-sized enterprises.

BDC FINANCING

for the years ended March 31

Entrepreneurs seek financing support for their projects.

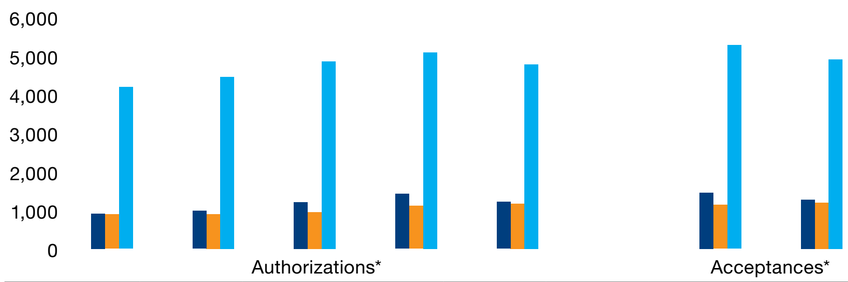


	Authorizations*					Acceptances*	
	2004	2005	2006	2007	**2008**	2007	**2008**
Amount ($ in millions)	2,034	2,230	2,462	2,586	**2,814**	2,692	**2,907**
Number	7,212	7,457	8,402	9,079	**8,921**	9,394	**9,143**

BDC FINANCING: SUPPORT TO FIRMS AT START-UP, DEVELOPMENT AND EXPANSION STAGES

for the years ended March 31 (number)

BDC's financing is designed to protect working capital and is thus often sought by fast-growing firms.



	Authorizations*					Acceptances*	
	2004	2005	2006	2007	**2008**	2007	**2008**
Start-up	917	993	1,217	1,438	**1,229**	1,474	**1,291**
Development	901	905	959	1,123	**1,186**	1,149	**1,207**
Expansion	4,238	4,501	4,907	5,145	**4,836**	5,336	**4,958**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. This explains why, in subsequent years, acceptances may exceed authorizations.

REAL IMPACT BDC FINANCING

Barry Williams, Business Manager *(third from the left)*
with co-owners and management staff

Modern Industrial Structures Inc.

Saskatoon, Saskatchewan

BDC client since 2007

"As a start-up, we needed to ramp up our capacity to produce re-locatable trailers. BDC gave us top-notch advice to improve our operational efficiency. Our partnership with BDC has helped us drive exponential growth. In the last year, we've gone from $1.9 million to $16 million in sales. That's quite an achievement for a newcomer."

REAL IMPACT BDC SUBORDINATE FINANCING

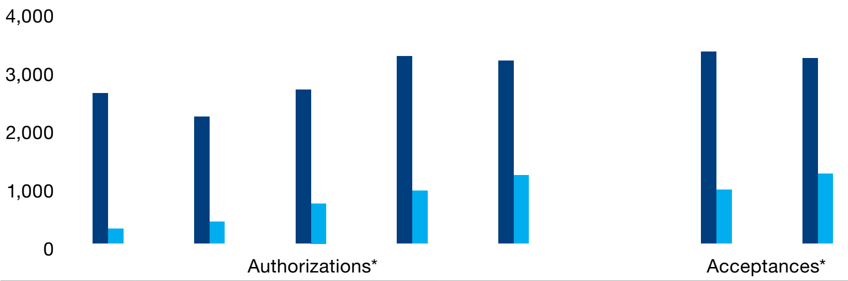
Troy Lupul
President
FilterBoxx
Calgary, Alberta
BDC client since 2007

"We had a huge demand for our packaged water treatment solutions and were outstripping our capital. That's when BDC stepped in. They proposed subordinate financing, which helped us protect our equity position in the company. Today, we're building the largest water treatment plant for the Canadian Forces in Afghanistan. BDC's confidence in us is paying off."

BDC FINANCING BY PRIMARY LOAN PURPOSE

for the years ended March 31 (number)

BDC offers working capital to finance growth projects. It also offers support to retiring entrepreneurs who are selling their businesses, as well as to those who are buying businesses from exiting entrepreneurs.

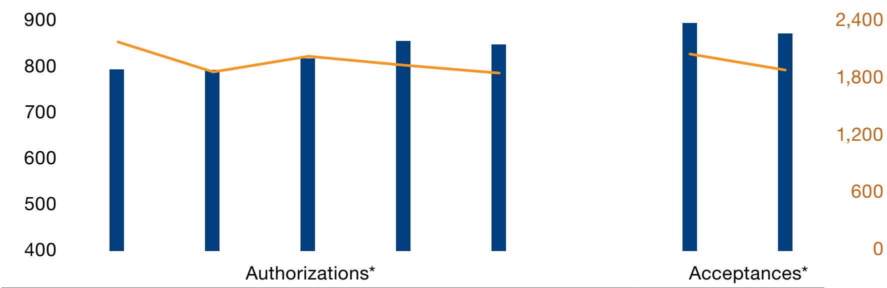


	Authorizations* 2004	2005	2006	2007	**2008**	Acceptances* 2007	**2008**
Working capital	2,618	2,208	2,686	3,270	**3,188**	3,346	**3,230**
Change of business ownership	258	381	698	923	**1,190**	936	**1,213**

BDC FINANCING: SUPPORT TO EXPORTERS

for the years ended March 31

BDC has been supporting small business exporters for decades. About a third of our financing goes to them.



	Authorizations* 2004	2005	2006	2007	**2008**	Acceptances* 2007	**2008**
Amount ($ in millions)	794	793	818	856	**848**	895	**872**
Number	2,192	1,877	2,041	1,948	**1,865**	2,065	**1,897**

We fulfill our mandate by providing entrepreneurs with tailored financing, investments and consulting. Their needs as entrepreneurs drive our support – support of the highest standard possible.

Our organizational structure mirrors our services: BDC Financing, BDC Subordinate Financing, BDC Consulting and BDC Venture Capital.

We are responsible. Our primary responsibility to Canadian society is to support its entrepreneurs. We do so as effectively and efficiently as possible, using exemplary corporate governance and business practices. We are also environmentally responsible. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*. Our goal is to ensure that we do not fund projects that might cause a significant adverse impact on the environment.

BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, visit www.bdc.ca.

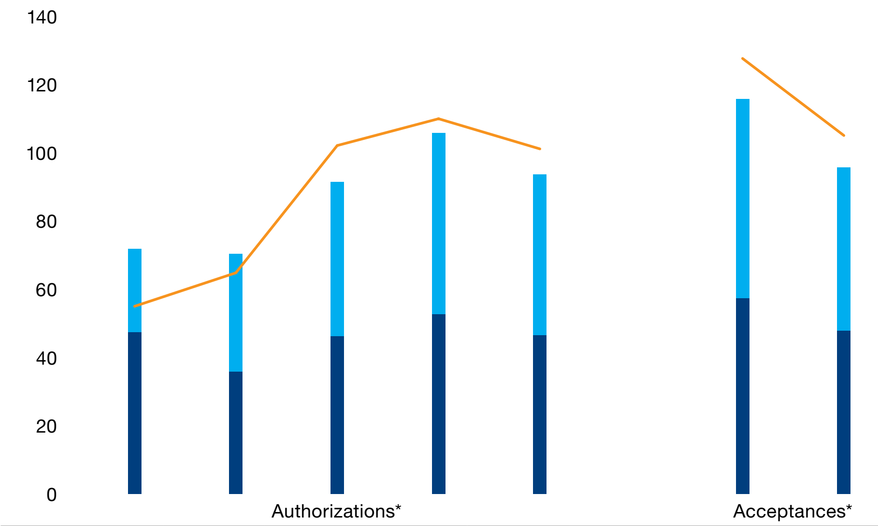
WE OFFER SUPPORT FOR BUSINESS EXPANSION

For entrepreneurs who need working capital to grow their businesses but do not have the tangible security that conventional lenders require, or who do not want to dilute their ownership of the firm, we offer a type of hybrid financing that combines debt and equity: subordinate financing.

We anchor this service in a partnership with the Caisse de dépôt et placement du Québec (the Caisse). This year, BDC Subordinate Financing received $97 million in acceptances (this includes the Caisse portion).

BDC SUBORDINATE FINANCING

for the years ended March 31



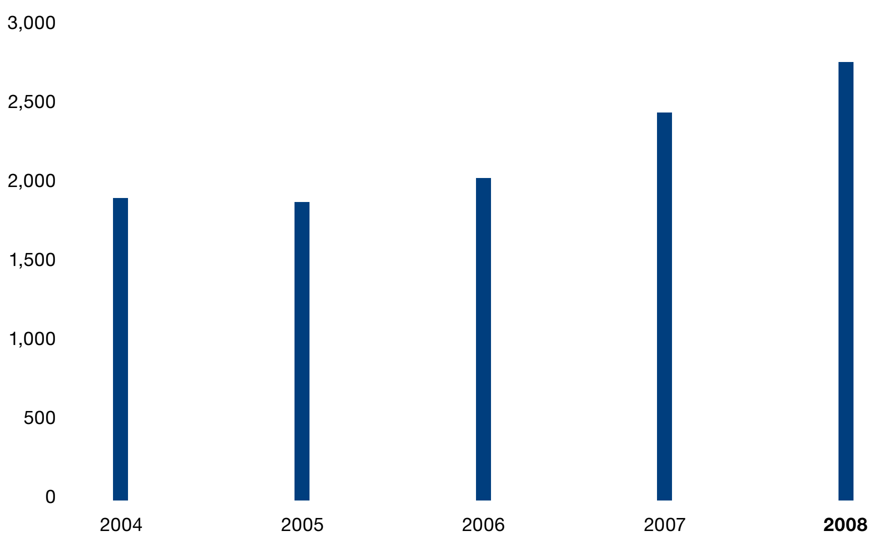
	Authorizations*					Acceptances*	
	2004	2005	2006	2007	**2008**	2007	**2008**
Amount – BDC portion ($ in millions)	48.2	36.4	47.1	53.6	**47.4**	58.4	**48.7**
Amount – Caisse portion ($ in millions)	25.0	35.3	46.0	54.1	**47.9**	59.4	**48.7**
Amount – Total ($ in millions)	73.2	71.7	93.1	107.7	**95.3**	117.8	**97.4**
Number	56	66	104	112	**103**	130	**107**

WE OFFER SUPPORT FOR MORE SKILFUL BUSINESSES

Entrepreneurs face many competitive challenges. BDC Consulting offers them tailored, high-quality consulting services at a price they can afford. Our goal is to help create more skilful, competition-ready businesses. In fiscal 2008, we started 2,770 consulting mandates. This is a 13% increase from last year.

BDC CONSULTING MANDATES

for the years ended March 31 (number)



2004	2005	2006	2007	**2008**
1,909	1,886	2,037	2,451	**2,770**

* Clients accept financing after BDC authorizes it. There is sometimes a delay between the two. This explains why, in subsequent years, acceptances may exceed authorizations.

REAL IMPACT BDC CONSULTING

Carla Row
Office Manager
Eastern Industrial Sales & Service
St. John's, Newfoundland
BDC client since 2007

"We are an electrical supply company for offshore oil and gas, marine, and heavy industries. Recruiting in our field is very competitive, so we went to BDC Consulting for help in hiring for a key sales position. Their experience was invaluable. It's no surprise that we gave BDC repeat business."

REAL IMPACT BDC VENTURE CAPITAL

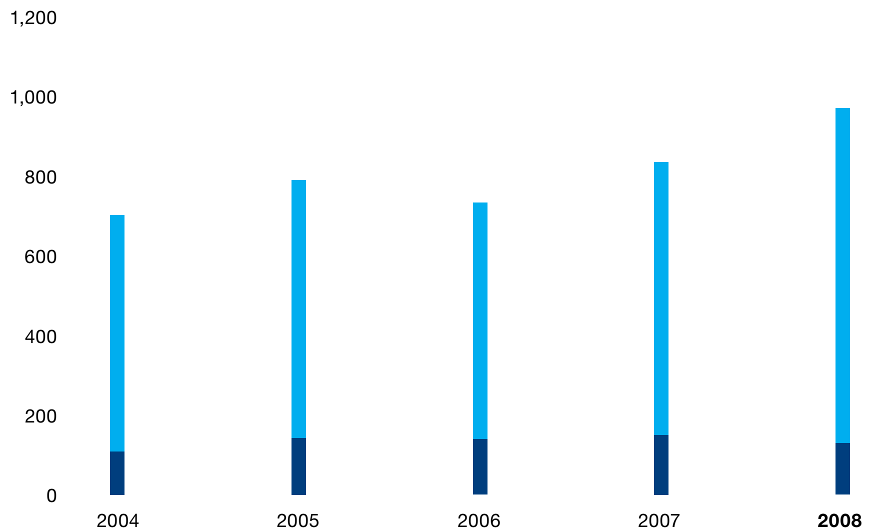
*BACK COVER

Gervais Dionne, PhD
Chief Executive Officer and Chief Scientific Officer
ViroChem Pharma Inc.
Laval, Quebec
BDC client since 2003

"The need to treat viral diseases such as hepatitis C and HIV infection/AIDS is urgent. Our company is at the forefront of research in this field, and BDC has always shown confidence in our potential to break ground. Beyond providing us with vital venture capital, BDC backed us from day one. They understand what it takes to grow an R&D-focused company and bring products to market."

TOTAL VALUE OF BDC VENTURE CAPITAL PROJECTS FINANCED

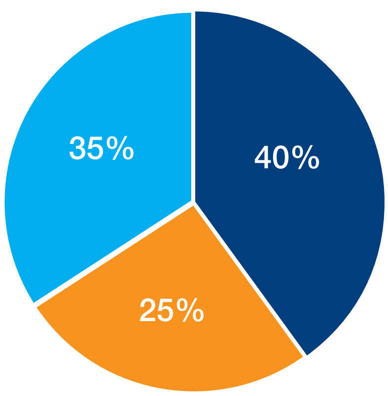
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	2008
BDC Venture Capital authorizations and acceptances	109	143	140	151	**130**
Other sources of investment	598	652	598	690	**848**
Total	707	795	738	841	**978**

BDC VENTURE CAPITAL DIRECT INVESTMENTS AUTHORIZED, BY STAGE OF DEVELOPMENT

for the year ended March 31, 2008 (percentage of dollar value)



- Start-up or seed
- Development
- Expansion

WE SUPPORT COMMERCIALIZATION

We support entrepreneurs who are turning new ideas and technology into attractive products and successful companies. Successful commercialization is vitally important to the national economy and thus a crucial public policy goal for our shareholder, the Government of Canada. The venture capital industry is enduring a particularly difficult period. Hence our support.

We are a Canadian leader in the critically important early-stage (including seed) investment phase. In fiscal 2008, we made 75% of the dollar value of our direct investments in early-stage firms. That figure compares with the industry average of 33%.

This past year, direct seed investments in Canada totalled $56.7 million. BDC contributed $9.3 million of this total in 11 seed ventures.

Over 40% of our direct venture capital portfolio companies originated and developed in universities and labs. These companies need BDC's expertise and long-term commitment.

In fiscal 2008, BDC Venture Capital authorized 85 direct investments totalling $105 million. In addition, we also authorized $25 million in investment in two funds.

REACHING A WIDE DIVERSITY OF ENTREPRENEURS

For BDC, diversity means having a team and an approach that reflect the society outside our door and that foster broad, inclusive outreach to clients. This enables us to meet entrepreneurs' needs, which vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. We use a grassroots approach, collaborating with local business associations.

Women entrepreneurs lead businesses of all sizes in all sectors. They also enter the small business marketplace at twice the rate men do. Over the past two decades, their number has grown by over 200%. We have more than 7,000 women clients, almost twice as many as we did a decade ago. They represent about one quarter of our client roster.

At 22 Entrepreneurship Centers across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2008, the centres received $202 million worth of loan acceptances.

We have formal partnerships with more than 200 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. These partnerships enable us to reach entrepreneurs who live near these centres. Using this network, we supported more than 800 entrepreneurs in fiscal 2008.

Young entrepreneurs lead about 9% of Canadian small businesses. Many of them find it hard to secure financing because they have little or no managerial experience, and have no proven track record. Over the past five years, we have authorized over $780 million in financing to young entrepreneurs across the country.

PROMOTING ENTREPRENEURSHIP

To foster an entrepreneurial spirit in Canadian youth, BDC celebrates the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards, a key event during BDC Small Business Week®. We also support competitions in universities and colleges that promote entrepreneurial and business-planning skills.

We are particularly proud of our support for Enterprize 2008. In this national competition, university students from across the country submitted business plans, competing in regional and national finals. BDC senior managers evaluated and judged the plans. The top three winners were from the University of New Brunswick, the University of Victoria and York University.

We also help promote economic development in Aboriginal communities through a grassroots approach called the Circle of Entrepreneurial Success. This strategy delivers management training, ongoing mentorship and loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations for the project.

To stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, about 4,000 students have participated in it, and some competitors have since graduated and are running businesses based on those plans. Last year, we held the E-Spirit awards ceremony in Halifax.

REAL IMPACT BDC FINANCING

Carol Ann Barnaby
Vice President and Co-Owner

Percy Barnaby
President and Co-Owner

Abenaki Associates
Eel Ground, New Brunswick
BDC client since 2006

"We provide a full range of management and information technology services to First Nations clients across Canada. Our reputation and market knowledge are precious intangible assets, and BDC recognizes their value. We succeed because we understand our niche market and build long-term relationships with our clients. BDC financed the redevelopment of our key software, which helped us get a better product to our customers."

PUBLIC POLICY PERFORMANCE INDICATORS

We are developing four performance indicators – business creation, market leverage, business survival and business growth – to assess how well we are fulfilling our public policy mandate over the long term.

Business Creation

This indicator represents BDC's contribution to creating Canadian businesses, as compared to market benchmarks.

- Over the past six years, about 14% of BDC authorizations have gone to clients in the start-up phase. Market data show that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as the market is.

Market Leverage

Each dollar BDC lends or invests leverages private sector sources of financing. Monitoring that activity reveals the total value of the SME projects BDC backs.

- Our fiscal 2008 operational data indicate that, including fund investments, BDC Venture Capital catalyzed almost $6.50 from other venture capitalists for every dollar BDC invested.

Business Survival

BDC works in partnership with entrepreneurs, even in difficult times. The survival rates of BDC start-up clients surpass industry benchmarks.

- Two-year survival threshold: BDC wrote off and liquidated only 8% of its loans to start-ups within the first two years. According to Statistics Canada research, 25% of firms cease operation before their second birthday.
- Five-year survival threshold: After five years, 67% of BDC-supported start-ups survive, compared to the Statistics Canada industry benchmark of 36%.

Business Growth

One can compare the growth of BDC clients to growth in the SME market at large.

- Based on internal and external surveys, BDC clients appear twice as likely as all SME owners to perceive their firms as being in the fast-growth stage (26% vs. 13%).

Our objective is to have a measurement system that gives us insight into our long-term impacts in the market. To this end, we collaborate with other small business experts. Should we determine that the indicators are less helpful than we expected, we will amend or dispose of them. Should other indicators prove to be more valid or useful, we will add them.

2.

KEY PERFORMANCE INDICATORS

WE MEASURE OUR PERFORMANCE AGAINST THE 2008–2012 CORPORATE PLAN.

CLIENTS

The first of BDC's key desired outcomes is supportive relationships with Canadian entrepreneurs. It is through these relationships that we offer them financing, investments and consulting to help them succeed.

Every year, we measure the degree to which our clients value their relationships with us. We hire an external firm to do a client satisfaction survey.

Client Satisfaction

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
92%	93%	90%	**93%**	91%

Performance in Fiscal 2008

In fiscal 2008, the overall client satisfaction rating remained high at 93%. This figure is the same as in fiscal 2007 and 3 percentage points above our fiscal 2008 objective.

Of our new clients, 95% said they were satisfied with our service. This figure is 1 percentage point higher than last year.

We also ask our clients if our financing will help them become more profitable. In our survey, 88% of new client respondents said yes.

Objective for Fiscal 2009

The objective for client satisfaction in fiscal 2009 is 91%, an increase of 1 percentage point from the fiscal 2008 objective but 2 points lower than the fiscal 2008 actual result.

EMPLOYEES

We seek employees whose skills, professional effectiveness and dedication to our mandate will ensure that our clients are well served.

To gauge the degree to which our employees are "engaged" in their work, we examine what they say about BDC, whether their job commitment makes them want to stay at BDC and how much discretionary effort they put into their work, in addition to that which their role requires. Every year we hire an external firm to do an employee engagement survey.

Employee Engagement

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
78%	80%	78%	**76%**	80%

Performance in Fiscal 2008

In fiscal 2008, our employee engagement rating decreased 4 percentage points to 76%. This figure is 2 points below our objective of 78%, but on par with the most recent engagement scores among best employers. We are working with our employees to understand the survey results and any issues they have identified.

Although our employee engagement rating decreased in fiscal 2008, we were recognized as one of the "Top 100 Employers in Canada" for the second year in a row. BDC also ranked first on a list of the "30 Best Companies in Canada for Pension and Benefit Plans," as determined by employee satisfaction. Finally, it was the only Canadian organization to be recognized in the international research study *Top Companies for Leaders*, done by an international panel of experts and sponsored by Hewitt and Associates.

Objective for Fiscal 2009

The objective for fiscal 2009 is to increase the engagement rate by 4 percentage points compared to fiscal 2008 results. To do so, we will continue to foster:

- a workplace that attracts and retains dedicated, business-minded, effective and diverse employees;
- a culture of responsibility and collaboration; and
- knowledgeable and trusted leadership through our award-winning Transitional Leadership Program, which gives targeted, practical training to managers, as well as employees we identify as potential leaders.

EFFICIENCY

BDC strives to be as efficient as possible. To measure our efficiency, we use a ratio of expenses and income. Specifically, we use our financing and subordinate financing operating and administrative expenses as a percentage of their net interest and other income. Note that this ratio includes realized gains and losses on subordinate financing investments. When we spend fewer dollars to generate each dollar of revenue, we are more efficient. The lower the ratio, the greater the efficiency.

Efficiency Ratio

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
48.9%	50.2%	51.0%	**48.5%**	50.1%

Performance in Fiscal 2008

The efficiency ratio in fiscal 2008 was 48.5%. This figure is 2.5 percentage points better than the corporate plan objective of 51.0%, mainly because operating and administrative expenses were $12.7 million lower than planned.

Improvements in lending processes and tighter controls over administrative expenses are the main factors explaining this $12.7 million positive variance.

Compared to last year, the efficiency ratio is 1.7 percentage points better, primarily because net interest and other income increased by 5.2% due to growth in the financing and subordinate financing portfolios, while operating and administrative expenses increased by only 1.5%.

Objective for Fiscal 2009

The efficiency ratio target for fiscal 2009 is 50.1%. This would be an improvement of 0.9 percentage points over the fiscal 2008 objective, but 1.6 points higher than the fiscal 2008 results, as we expect to complete the hiring needed to support our growth, as well as increase our investments in work process improvements.

In fiscal 2007, we launched the Value Project, an initiative to find ways to simplify our business processes. The goal is to eliminate activities that do not provide value to our clients, and to make better use of technology to reduce paper burden and delays. The Value Project will increase efficiency in the long term but hinder it in the short term. The recommendations it generates will also likely require major investments, the final costs of which we are determining. Consequently, this project may affect our 2009 objective.

FINANCIAL SUSTAINABILITY

OUTSTANDING BDC FINANCING PORTFOLIO

In fulfilling its public policy mandate, BDC must be profitable to grow and invest in its services. It must yield a sufficient rate of return, net of credit losses, to cover operating expenses and to generate sufficient earnings and capital to support future growth.

Outstanding Financing Portfolio

($ in billions)

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
$8.6	$9.1	$9.7	**$10.0**	$10.4

Performance in Fiscal 2008

The gross closing portfolio rose from $9.1 billion to $10.0 billion. This is an increase of almost $900 million, or 9.7%. At $10.0 billion, the gross financing portfolio was the driving force behind BDC's financial results. We believe fiscal 2008's growth was due in part to uncertainty in the marketplace, which reduced the credit supply for Canadian entrepreneurs.

Objective for Fiscal 2009

For fiscal 2009, the objective for the BDC Financing portfolio is $10.4 billion. This is 4.1% higher than the $10.0 billion achieved in fiscal 2008, but a slower growth rate than that recorded in fiscal 2008. The slower growth rate forecast is mainly attributable to a change in economic conditions, which should stabilize the level of authorizations and thereby reduce portfolio growth.

BDC CONSULTING REVENUES

BDC's consulting services differentiate us from our market peers. In general, business consulting services are expensive. We offer entrepreneurs a range of customized, quality consulting services at prices they can afford.

Consulting Revenue

($ in millions)

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
$21.6	$23.5	$26.0	**$24.8**	$26.0

Performance in Fiscal 2008

In fiscal 2008, consulting revenues rose 5.4% to $24.8 million, which is less than the corporate plan objective of $26.0 million but still a substantial growth compared to fiscal 2007 results. The growth in the number of mandates started during the year is even more impressive: an increase of 13% from last year's results. Due to trying economic conditions, the average size of our consulting mandates was smaller than expected.

Objective for Fiscal 2009

The fiscal 2009 revenue objective for BDC Consulting is $26.0 million, consistent with the fiscal 2008 objective.

RETURN ON COMMON EQUITY

BDC does not give grants or contributions and does not receive an annual appropriation from Parliament.To remain profitable to sustain growth, we aim to generate a return on common equity (ROE) that is at least equal to the government's average long-term cost of capital.

Return on Common Equity

F2006 Actual	F2007 Actual	F2008 Objective	**F2008 Actual**	F2009 Objective
9.2%	8.5%	7.1%	**4.7%**	6.3%

Performance in Fiscal 2008

BDC's total ROE in fiscal 2008 was 4.7%. This figure is lower than the corporate plan objective of 7.1%. The shortfall is due to the loss in our venture capital portfolio. However, our ROE allowed us to honour our obligation to meet or exceed the government's average long-term cost of capital of 4.0% for the year.

Objective for Fiscal 2009

The ROE objective is 6.3%. This figure is higher than the government's average long-term cost of capital for 2009 – estimated to be 3.2% – and assumes a net income of $118 million.

3.

ANALYSIS OF FINANCIAL RESULTS

THIS ANALYSIS COMPARES OUR FISCAL 2008 FINANCIAL PERFORMANCE TO FISCAL 2007 RESULTS AND 2008–2012 CORPORATE PLAN OBJECTIVES.

LINES OF BUSINESS

BDC reports on four business lines: BDC Financing, BDC Subordinate Financing, BDC Venture Capital and BDC Consulting.

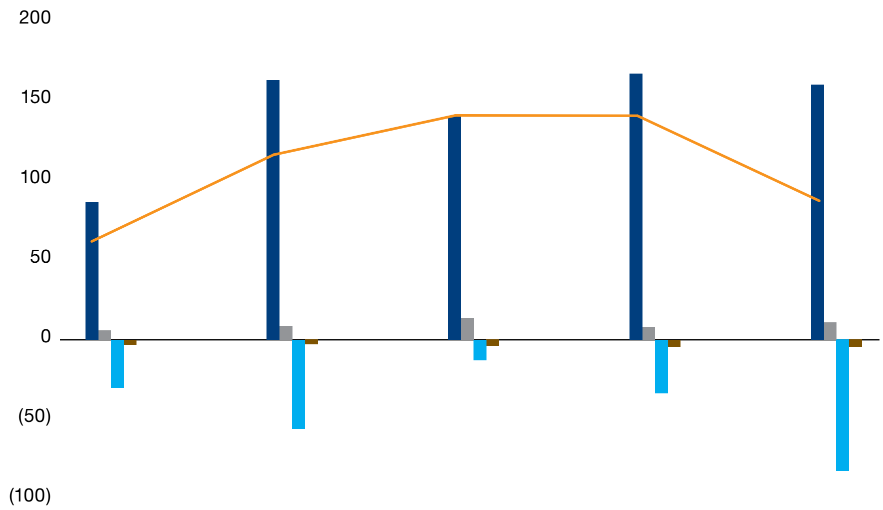
CONSOLIDATED NET INCOME

Consolidated net income for fiscal 2008 was $84.6 million, compared to $138.0 million reported in fiscal 2007. The decrease from fiscal 2007 is mainly due to an increase in the venture capital loss of $49.2 million.

Income from BDC Financing was $160.9 million, $7.1 million lower than in fiscal 2007. The decrease is mainly the result of a $30.2 million increase in revenues offset by a $33.6 million increase in the provision for credit losses.

BDC NET INCOME

for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
BDC Financing	86.7	163.7	141.1	168.0	**160.9**
BDC Subordinate Financing	5.8	8.8	13.7	7.9	**11.0**
BDC Venture Capital	(30.3)	(56.1)	(12.8)	(33.6)	**(82.8)**
BDC Consulting	(3.1)	(2.9)	(3.8)	(4.3)	**(4.5)**
Total net income	59.1	113.5	138.2	138.0	**84.6**

BDC Subordinate Financing results were $3.1 million higher than the $7.9 million recorded in fiscal 2007. This difference is essentially due to a $7.0 million decrease in fair value depreciation, offset by a $3.7 million decrease in realized gains and losses on investments and other income.

BDC Venture Capital reported a $82.8 million loss for the year. This figure compares to a $33.6 million loss in fiscal 2007. The loss is due to the large depreciation in the fair value of investments.

The loss from BDC Consulting was $4.5 million in fiscal 2008, compared to a loss of $4.3 million in fiscal 2007.

Dividends

BDC pays dividends to its sole shareholder, the Government of Canada. We declared dividends of $21.5 million in fiscal 2008. Of this amount, $12.0 million was on common shares based on the fiscal 2007 results; the remainder was related to preferred shares. In fiscal 2008, we paid dividends of $21.5 million.

Exposure to Sub-Prime Defaults

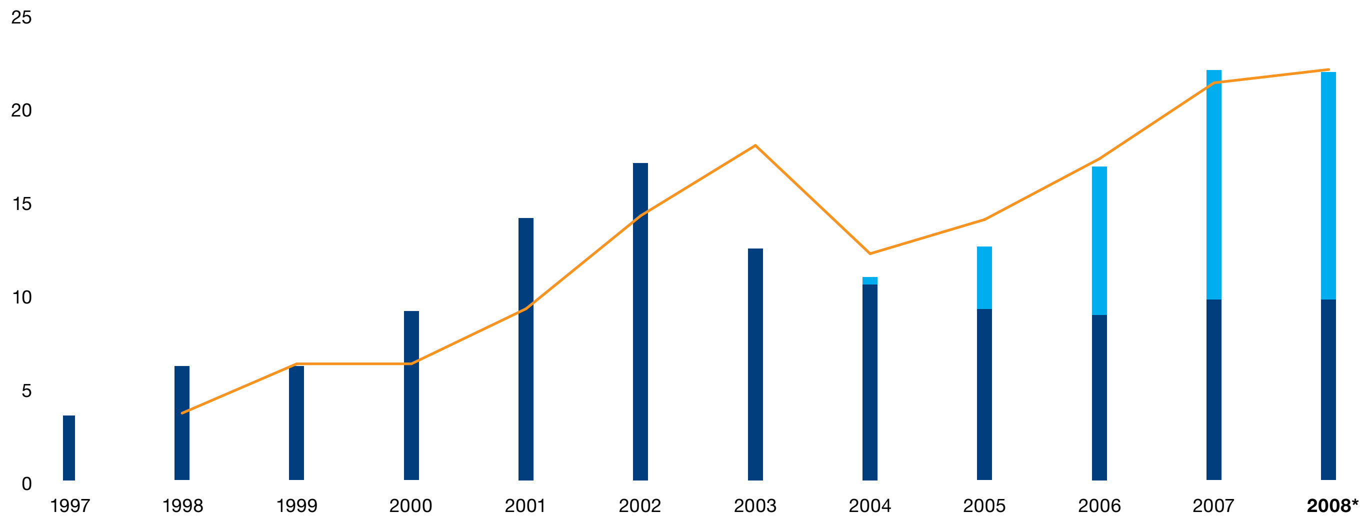
In the latter part of 2007, problems in the U.S. sub-prime mortgage market triggered a general liquidity crisis. Many Canadian financial institutions had invested in financial instruments backed by sub-prime mortgages and other similar assets, and have taken write-downs on them. BDC was unaffected by the crisis; we have no exposure to non-bank asset-backed commercial paper or sub-prime financial instruments.

Performance Against Objective

Consolidated net income of $84.6 million in fiscal 2008 was $38.8 million lower than targeted in the corporate plan. This difference is due to the higher than expected venture capital loss of $82.8 million, partly offset by better than planned performance of $39.0 million from BDC Financing and $5.5 million from BDC Subordinate Financing.

DIVIDENDS

for the years ended March 31 ($ in millions)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008***
Preferred declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.3	9.0	8.7	9.5	**9.5**
Common declared	–	–	–	–	–	–	–	0.4	3.3	7.8	12.1	**12.0**
Total dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.7	12.3	16.5	21.6	**21.5**
Total dividends paid	–	3.4	6.0	6.0	8.9	13.8	17.5	11.8	13.6	16.8	20.8	**21.5**

* In addition, based on BDC's fiscal 2008 performance, common dividends of $7.0 million were declared after March 31, 2008, and will be paid and recorded in fiscal 2009.

Outlook for 2009

We project a consolidated net income of $118 million in fiscal 2009. Note that an economic slowdown or continued difficulty in venture capital markets could hamper our ability to reach this objective.

We declared, after year-end, a common share dividend of $7.0 million based on our fiscal 2008 financial performance. We will record and pay this dividend in fiscal 2009.

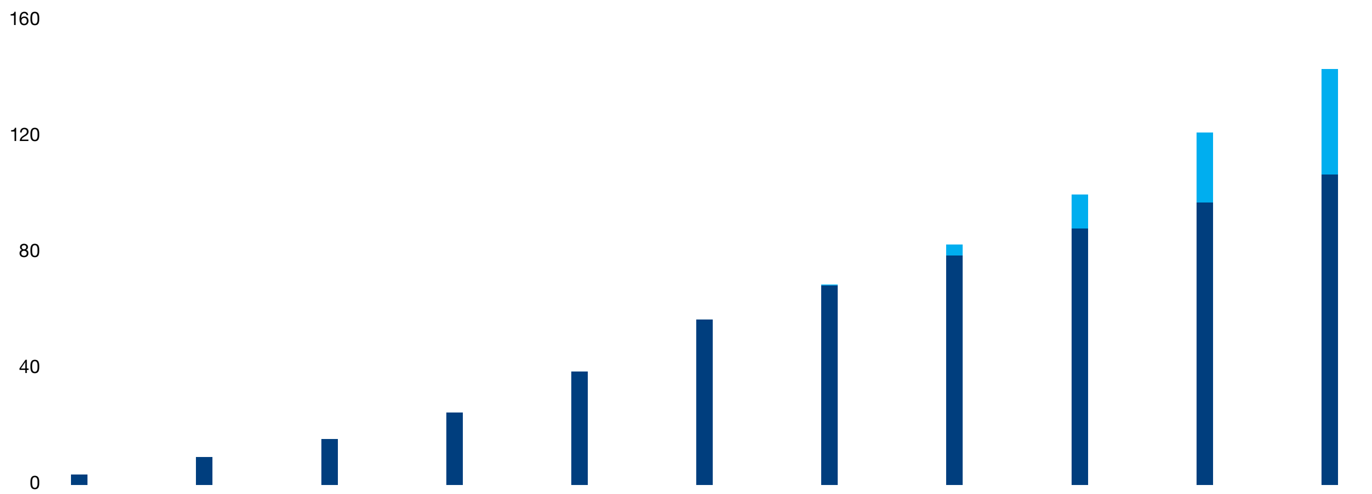
We also project a $10 million dividend on preferred shares, which we will declare in fiscal 2009.

BDC FINANCING

BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their businesses, develop and expand their markets, invest in intangible assets such as information technology, buy equipment or transfer their companies to a new generation of owners.

CUMULATIVE DIVIDENDS PAID

as at March 31 ($ in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Preferred dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.1	77.3	86.4	95.1	**104.5**
Common dividends paid	–	-	-	-	-	-	0.4	3.8	11.5	23.6	**35.7**
Total dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.5	81.1	97.9	118.7	**140.2**

BDC will be making an additional total payment of $16.5 million in June 2008 ($9.5 million in preferred dividends declared in fiscal 2008 and, based on fiscal 2008 performance, common dividends of $7.0 million declared after March 31, 2008).

Financing Portfolio

BDC Financing's closing portfolio, before allowance for credit losses, rose from $9.1 billion to $10.0 billion in fiscal 2008. This is an increase of $886 million, or 9.7% when compared to fiscal 2007. We attribute this increase to the unanticipated, tightened credit conditions and reduced liquidity that characterized the marketplace in 2007. The average portfolio increased by 7.3%. The largest contributing factor to this growth was a 16% growth in disbursements ($2.8 billion). The payment and prepayment rate was 20.5% of opening outstanding portfolio, 1.2 percentage points lower than the rate in fiscal 2007 because our clients availed themselves of repayment grace periods and extended terms.

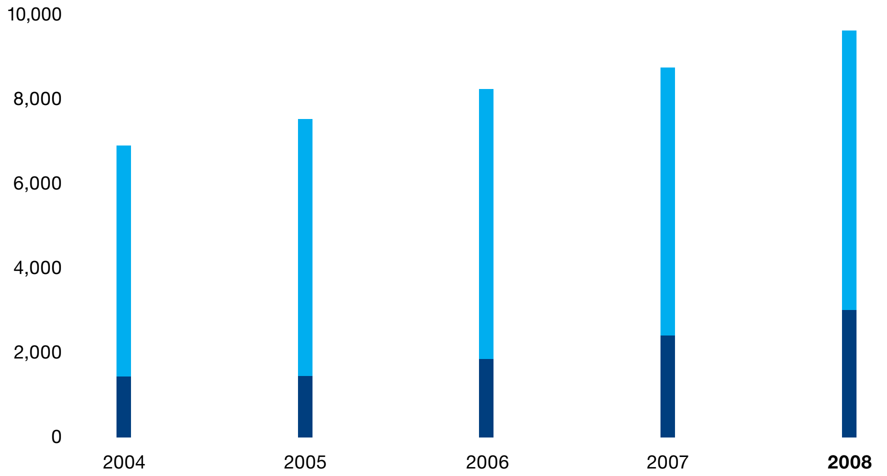
We offer clients floating and fixed interest rates. We borrow the funds on the Canadian and global money markets, which determine our cost of funds. This cost, in turn, becomes the foundation of the rate we charge our clients, along with factors to cover operating expenses and the risk of each individual loan. As seen in the graph at upper right, a higher proportion of the performing portfolio, 31.6% compared to 27.9% in fiscal 2007, is composed of fixed rate loans.

Net Interest and Other Income

Net interest income of $473.8 million reflected interest income less interest expense on borrowings. It also included $47.9 million in interest earned on short-term investments and securities. Other income of $33.4 million mainly comprised fees charged to borrowers. Net interest and other income totalled $507.2 million, which was $30.2 million or 6.3% higher than in fiscal 2007.

PERFORMING PORTFOLIO

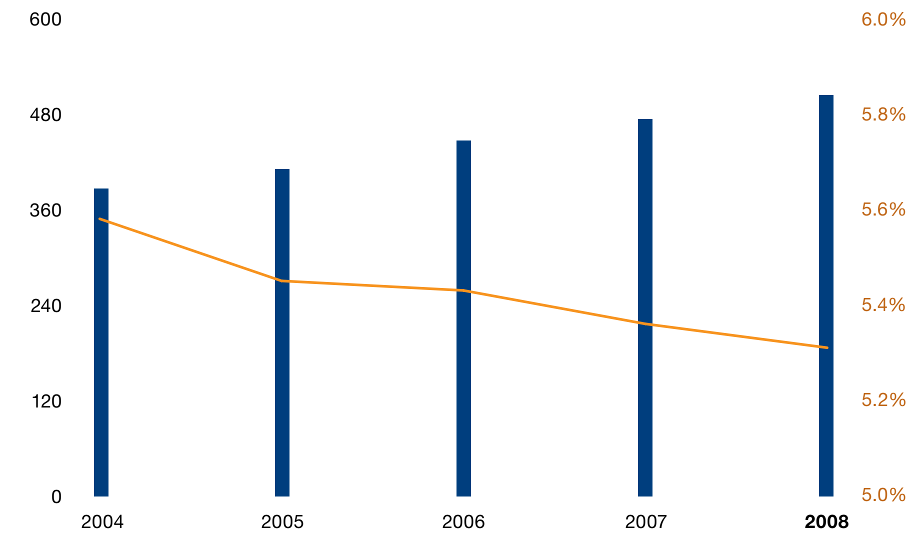
as at March 31 ($ in millions)



	2004	2005	2006	2007	2008
Fixed rate portfolio	1,478	1,500	1,902	2,464	**3,069**
Floating rate portfolio	5,508	6,117	6,426	6,378	**6,652**
Total performing portfolio	6,986	7,617	8,328	8,842	**9,721**

BDC FINANCING NET INTEREST AND OTHER INCOME

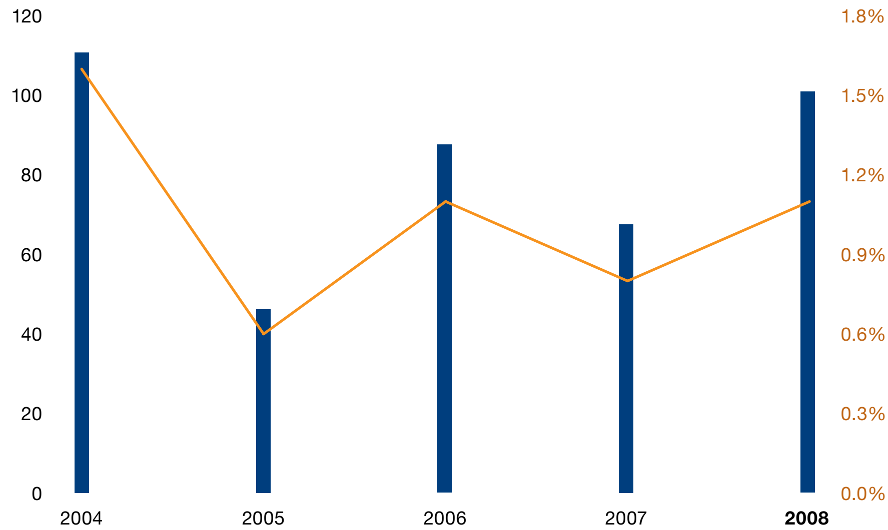
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	2008
Net interest and other income	389.0	413.5	449.6	477.0	**507.2**
As a % of average loan portfolio	5.58%	5.45%	5.43%	5.36%	**5.31%**

PROVISION FOR CREDIT LOSSES

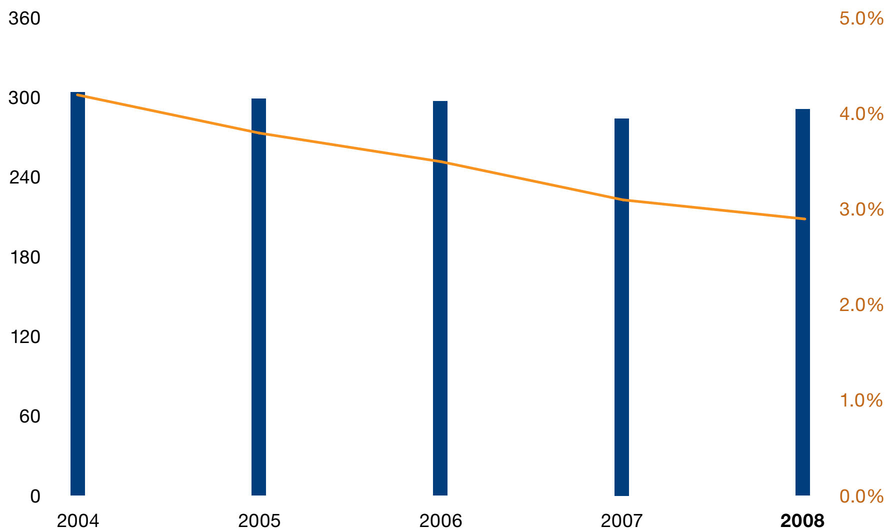
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	2008
Provision for credit losses	111.4	46.4	88.1	67.9	**101.5**
As a % of average loan portfolio	1.6%	0.6%	1.1%	0.8%	**1.1%**

IMPAIRED PORTFOLIO

as at March 31 ($ in millions)



	2004	2005	2006	2007	2008
Impaired portfolio	306	301	299	286	**293**
Impaired portfolio as a % of loan portfolio	4.2%	3.8%	3.5%	3.1%	**2.9%**

This $30.2 million increase was the net result of an increase of $35.0 million due to portfolio growth and a decrease of $4.8 million due to a lower margin achieved in fiscal 2008. Net interest and other income margin expressed as a percentage of the average portfolio was 5.31%, compared to 5.36% in fiscal 2007. Three factors explain this lower margin: (i) the implementation of the new accounting standard for financial instruments; (ii) higher other income due to higher client fees; and (iii) a lower margin achieved on fixed and floating rate portfolios funded with debt.

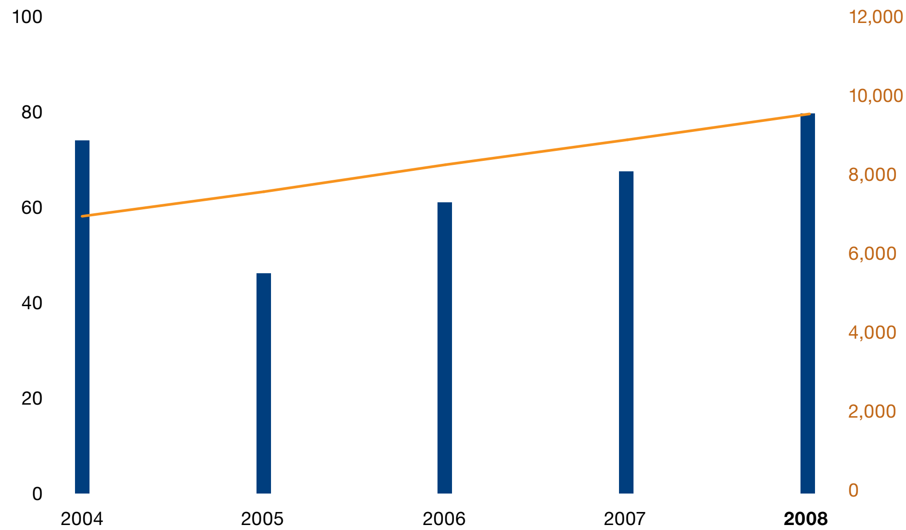
Provision for Credit Losses

BDC Financing recorded a specific provision for credit losses of $80.1 million and a general provision of $21.4 million. This represents 1.1% of the average loan portfolio, compared to 0.8% in fiscal 2007. In fiscal 2007, the specific provision was $67.9 million and no general provision was recorded. The provision increase in fiscal 2008 reflects higher impairment in our specialized term loans, which either have lower security or are unsecured. Total provision for credit losses is still at a cyclically low level.

When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. Also, this amount is added to the specific allowance. Loan write-offs reduce the specific allowance, once we determine that we have made all possible recoveries from the distressed debtor. Write-offs and other adjustments totalled $76.0 million, versus $60.1 million in fiscal 2007. Impaired loans as a percentage of the portfolio decreased by 0.2 percentage points from a year ago to 2.9% at March 31, 2008. However, the net exposure per impaired loan increased over the fiscal year because there were more unsecured loans in the portfolio.

SPECIFIC PROVISION FOR CREDIT LOSSES

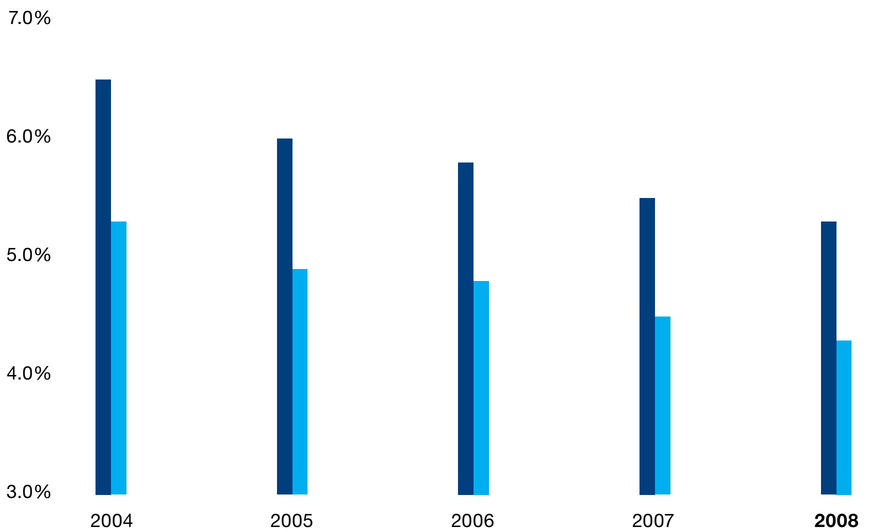
for the years ended March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Specific provision for credit losses	74.4	46.4	61.4	67.9	**80.1**
Average loan portfolio	6,976	7,595	8,275	8,902	**9,552**

ALLOWANCE FOR CREDIT LOSSES

as at March 31 (percentage)



	2004	2005	2006	2007	**2008**
Total allowance as a % of loan portfolio	6.5	6.0	5.8	5.5	**5.3**
General allowance as a % of performing portfolio	5.3	4.9	4.8	4.5	**4.3**

BDC maintains the cumulative allowance for credit losses at a level that reflects its long-term loss experience. At March 31, 2008, the allowance totalled $532.7 million, compared to $505.5 million a year ago. The total allowance represents 5.3% of the loan portfolio outstanding at March 31, 2008, compared to 5.5% at March 31, 2007. This decline was due mainly to improved credit quality in the performing loan portfolio.

Operating and Administrative Expenses

Operating and administrative expenses were $244.8 million in fiscal 2008, compared to $241.1 million in fiscal 2007. That was a 1.5% increase. Salaries and benefits rose by $7.1 million, or 4.7%, mostly due to a higher number of employees to support business growth, as well as to an increase in the average compensation of employees. In contrast, other operating and administrative expenses decreased by $4.0 million, due to tighter control of expenses.

Income from BDC Financing

BDC must generate sufficient returns, net of dividends to the shareholder, to increase its capital base. This capital base supports expanded future lending activities and allows us to maintain the requisite asset-to-capital ratio prescribed by Treasury Board of Canada, Secretariat.

Income from BDC Financing was $160.9 million in fiscal 2008, $7.1 million lower than the $168.0 million recorded in fiscal 2007. This decrease was mainly due to a higher provision for credit losses, partially offset by higher revenues from portfolio growth.

Performance Against Objectives

Financing income of $160.9 million in fiscal 2008 was above the corporate plan objective of $122 million.

The $10.0 billion portfolio was higher than the corporate plan objective of $9.7 billion. The actual provision expense of $101.5 million was much lower than the corporate plan objective of $124 million, due to lower specific and general provisions as a result of better than anticipated portfolio credit quality.

While business growth exceeded our corporate plan objective, total operating and administrative expenses were $12 million lower than targeted in the corporate plan. The difference was mainly due to lower staffing costs and other expenses, as a result of a lower level of employees than expected, due partly to process improvement and management's focus on cost control.

Outlook for 2009

We project less favourable economic conditions but steady demand for BDC Financing services. As a result, our gross portfolio should rise by 4.1% to $10.4 billion. This growth should push net interest and other income to $531 million, an increase of 4.7% from fiscal 2008.

We expect the credit environment to tighten slightly in fiscal 2009 because of the slowdown in the American economy, as well as the potential for a similar slowdown in Canada. Accordingly, we project the 2009 provision for credit losses will be $123 million, or 1.2% of the average portfolio, compared to 1.1% in fiscal 2008.

We expect operating and administrative expenses to rise by 9.5% to reach $268 million, due to a higher average number of employees to support our growth, plus investments in work process improvements to enhance our agility and efficiency. We therefore expect income from BDC Financing to be $140 million.

BDC SUBORDINATE FINANCING

Subordinate financing investments are hybrid instruments that combine elements of debt and equity financing.

We offer them to entrepreneurs whose more mature businesses need working capital for fast growth but who do not have the tangible security that conventional lenders require and do not wish to dilute their ownership of their firm.

In fiscal 2004, BDC and the Caisse de dépôt et placement du Québec (the Caisse) agreed to invest $150 million over three years in a joint partnership fund called AlterInvest Fund LP. This fund has been fully committed. In November 2006, BDC and the Caisse created a second fund, AlterInvest II Fund LP, to invest an additional $330 million. Since 2003, our subordinate financing activity has taken place via these funds, for which we act as the general partner. In fiscal 2006, we started reporting subordinate financing investments at fair value.

Subordinate Financing Portfolio

Consolidated BDC Subordinate Financing net portfolio assets grew by 5.3% in fiscal 2008, from $148.3 million to $156.2 million. Net portfolio assets under management rose from $255.8 million to $282.7 million.

Income from Subordinate Financing

BDC Subordinate Financing operations reported an income of $11.0 million for the year, $3.1 million higher than in fiscal 2007.

Net interest income from BDC Subordinate Financing of $13.7 million was in line with the result in fiscal 2007. Realized gains and losses on investments and other income totalled $10.0 million in fiscal 2008. This is a decrease of $3.7 million from fiscal 2007. Change in unrealized depreciation of investments of $0.3 million was $7.0 million better than fiscal 2007's level of $7.3 million.

Performance Against Objective
Income from BDC Subordinate Financing of $11.0 million in 2008 was much higher than the corporate plan objective of $5 million.

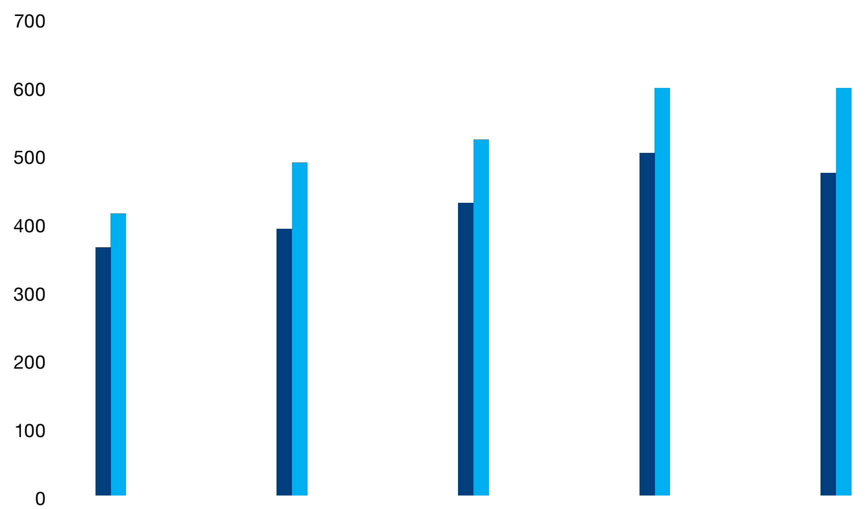
Outlook for 2009
Subordinate financing will remain attractive to entrepreneurs who want to finance growth, invest in intangible assets or transfer the ownership of their companies. Our subordinate financing is expected to grow by 5.6% to $165 million in 2009, an investment we expect to generate $6.6 million in income.

BDC VENTURE CAPITAL

Venture capital investments are equity instruments that support entrepreneurs as they turn the fruits of research and development – innovative ideas and technologies – into companies.

They cover every stage of the venture company's multi-stage development cycle, from seed through expansion. BDC's venture capital client roster mainly comprises companies at the seed, start-up and early stages of development.

VALUATION OF BDC VENTURE CAPITAL: TOTAL INVESTMENTS
as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Fair value	366.0	393.2	431.4	505.1	**476.0**
Cost	416.6	491.5	525.6	601.2	**601.4**

We invest in companies directly or via investment funds. We hold our venture capital assets through BDC Capital Inc. and have been measuring them at fair value since 2006.

Venture Capital Portfolio

The fair value of the portfolio decreased from $505.1 million in fiscal 2007 to $476.0 million at March 31, 2008. Of the total fair value of $476.0 million, $431.2 million relates to direct investments in companies and $44.8 million relates to investments in 17 funds. The decrease was due to dispositions, write-offs and fair value movements of $158.8 million, net of disbursements of $129.7 million.

Loss from Venture Capital

BDC Venture Capital's success depends, to a large degree, on profitable divestitures of individual investments. These divestitures are affected by market conditions. For the past several years, venture capital market conditions have been difficult. These difficult conditions, combined with the highly risky nature of the investment projects, have resulted in a pronounced volatility of earnings to the shareholder.

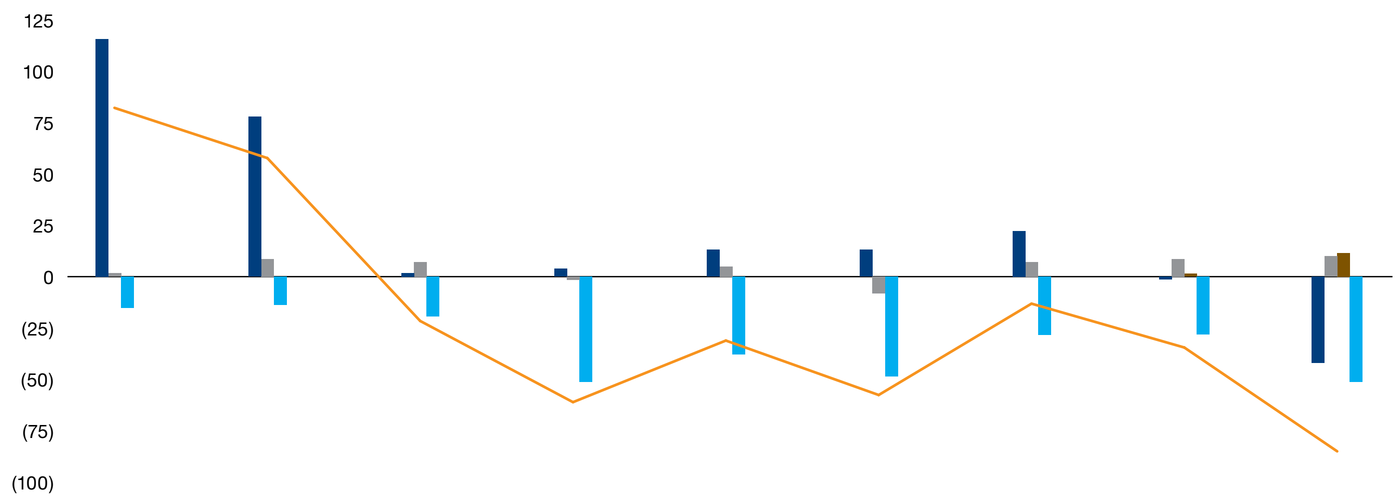
Since 2004, the portfolio at cost has increased by almost 45%. BDC Venture Capital has been growing its portfolio in accordance with the Government of Canada strategy that focuses on seed, start-up and early-stage companies.

The depressed state of Canada's venture capital market has increased the time horizon required for exits from seed and early-stage companies. This has reduced the number of exit opportunities, as well as the valuations for new investors. BDC Venture Capital has suffered losses over the last seven years, a period of financial loss that parallels the Canadian venture capital industry's post-2001 difficulties.

In fiscal 2008, BDC Venture Capital recorded a loss of $82.8 million, compared to fiscal 2007's $33.6 million loss. Most of this loss is attributable to the change in the fair value of investments.

BDC VENTURE CAPITAL OPERATIONS

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Realized net gains (losses) on investments	112.7	75.8	1.7	3.8	12.7	12.7	21.6	(1.2)	**(40.9)**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	6.9	8.3	**9.7**
Net gains on foreign exchange contracts	–	–	–	–	–	–	–	1.4	**11.2**
Write-down of investments / unrealized depreciation (2006–2008)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	(27.7)	(27.4)	**(50.0)**
Income (loss) before operating and administrative expenses	99.6	70.9	(10.2)	(47.9)	(19.2)	(42.7)	0.8	(18.9)	**(70.0)**
BDC Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	(12.8)	(33.6)	**(82.8)**

* Includes interest, dividends and management fees. Also includes unrealized gains / losses on temporary investments up to 2005.

Because the market offered few exit opportunities, divestitures were low in number again this year. Also, new investors in many of our portfolio companies were able to command lower prices of entry; when this happens, the result is a reduction in the fair value of the investment. Net realized losses on investments amounting to $40.9 million included $20.6 million in gains and $61.5 million in losses, consisting of sales and write-offs. This figure compares to $1.2 million in net realized losses in fiscal 2007. These net losses had no impact on net income because the fair value depreciation had already been recorded. Interest, dividends and other income in fiscal 2008 totalled $9.7 million, $1.4 million higher than fiscal 2007's result.

The change in unrealized depreciation of $50.0 million reflected:

- a net depreciation of $74.7 million in the portfolio during fiscal 2008;
- reversal of net fair value depreciation on divested investments that totalled $40.2 million, which largely offset net realized losses incurred during the year; and
- $15.5 million in depreciation due to foreign exchange fluctuations on U.S. dollar investments.

BDC monitors fluctuations in its U.S. dollar investments and uses foreign exchange contracts to partially hedge foreign exchange exposure. As such, an $11.2 million net gain on foreign exchange contracts partly offset the depreciation due to foreign currency.

The net depreciation of $74.7 million comprised a $4.4 million depreciation in investments in funds, $16.7 million in public companies and $53.6 million in private companies. As these figures show, there were negative results for all types of investments, testimony to the unfavourable venture capital market conditions.

Performance Against Objective

The venture capital loss, $82.8 million, was significantly higher than the corporate plan objective of break-even. This variance is due to two factors. Realized income was lower because of limited exit opportunities and the reductions in fair values were much greater than expected. The fair value of such investments is volatile and very difficult to measure and predict.

Outlook for 2009

Venture capital investing requires patient, long-term commitment and superior, specialized management skills. This is particularly true for BDC because it holds investments in many seed, start-up and early-stage companies. We remain dedicated to our shareholder's mandate to support commercialization in Canada.

In fiscal 2009, we expect activity to continue at a good pace; growing venture companies need additional rounds of investment for expansion or commercialization. We will bolster our scrutiny of the market competitiveness of our investee firms, dedicate greater efforts toward those that have a higher potential to be winners and work to attract additional investors. As per the corporate plan, we expect the fair value of investments to be $585 million in fiscal 2009 and project a $35 million fair value depreciation and a net loss of $25 million in fiscal 2009. These projected results could be affected if adverse market conditions continue.

In its 2008 budget, the federal government announced a $75 million capital contribution for BDC to help create a new privately run venture capital fund reaching $500 million to support late-stage venture capital investments.

BDC CONSULTING

BDC Consulting offers entrepreneurs tailored, affordable, quality consulting services to help them become more competitive. These services are an integral part of the value we bring to our client relationships. Our primary objective in offering consulting services is strengthened Canadian entrepreneurial competitiveness.

BDC started 2,770 consulting mandates in fiscal 2008, an increase of 13% over fiscal 2007. In fiscal 2008, the average mandate size of $9,400 was below the fiscal 2007 average of $10,000. We attribute this decline to fiscal 2007's economic uncertainty; our clients' investment decisions reflected heightened prudence.

Loss from Consulting

The two primary financial indicators for BDC Consulting, mandates and revenues, were ahead of fiscal 2007 results. Consulting revenue is generated as mandates are performed. It reached $24.8 million in fiscal 2008, 5.4% ahead of fiscal 2007.

The BDC Consulting loss of $4.5 million was $0.2 million higher than fiscal 2007's level, as growth in revenue did not fully offset the increase in operating and administrative expenses.

Performance Against Objectives

Revenues of $24.8 million were $1.2 million below the corporate plan target, due to the lower average mandate size. At $4.5 million, the loss was slightly higher than the corporate plan objective of $4.0 million.

Outlook for 2009

Our revenue target is $26 million, for a net expected loss of $4 million. This figure reflects our strategy of maintaining our prices at levels that small businesses can afford.

BDC CONSULTING REVENUE

for the years ended March 31 ($ in millions)

2004	2005	2006	2007	**2008**
20.0	18.9	21.6	23.5	**24.8**

BDC CONSULTING SERVICES

- Strategic planning
- Market development
- Operational efficiency
- Human resources
- Business transition
- Innovation

BALANCE SHEET

In fiscal 2008, total assets increased by $619.5 million, or 5.7%, from fiscal 2007, mainly in the loans portfolio.

BDC holds cash, cash equivalents and securities in accordance with its liquidity and investment management policy. Our liquidities, which ensure funds are available to meet client needs, totalled $816.6 million in fiscal 2008.

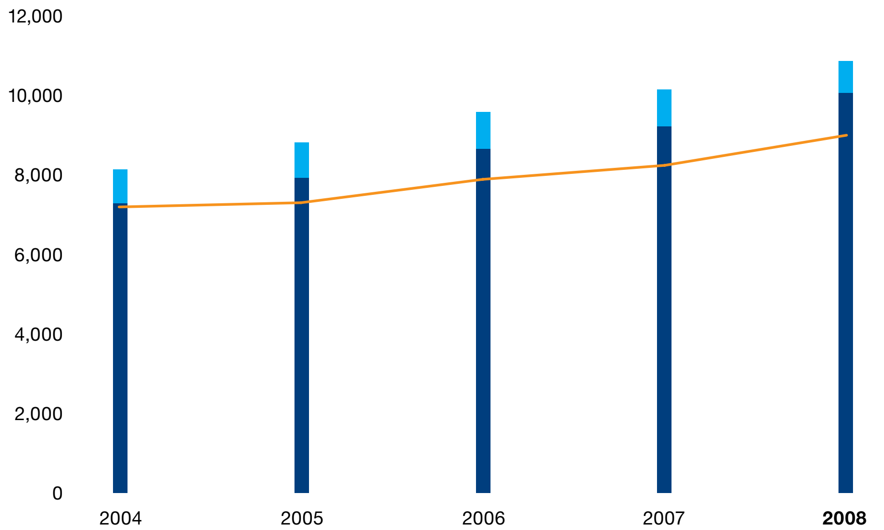
Loans, net of allowance for credit losses, were the largest asset on the balance sheet. This portfolio increased by $858.8 million, or 10.0%, from fiscal 2007, as a result of better reach after new branches opened last year and high demand for BDC Financing services because of tightened credit conditions.

Subordinate financing loans and investments increased by $7.9 million, or 5.3%. The fair value of the venture capital investments portfolio decreased by $29.1 million, or 5.8%, reflecting difficult market conditions.

Derivative assets of $206.9 million and derivative liabilities of $321.8 million reflected the fair value of derivative financial instruments as at March 31, 2008. Variances from fiscal 2007 figures are mainly due to the implementation of new accounting standards for financial instruments. These new standards now require that we measure derivative instruments at fair value. Other assets of $258.2 million included an accrued benefit pension asset of $115.8 million, while other liabilities of $149.1 million included an accrued benefit pension liability of $107.9 million.

BORROWINGS

as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Liquid assets	865	903	930	929	**817**
Portfolios*	7,323	7,966	8,705	9,276	**10,114**
Borrowings	7,181	7,288	7,876	8,228	**8,986**

* Includes net portfolios and investments.

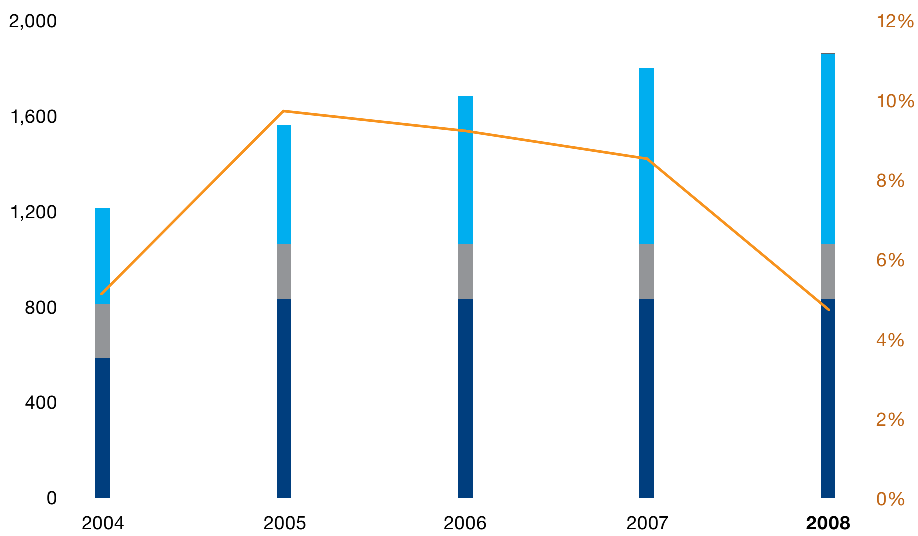
At March 31, 2008, we funded portfolios and liquidities of $10.9 billion with borrowings of $9.0 billion and total equity of $1.9 billion. Borrowings in short-term and long-term notes increased by 9.2% in relation to the overall growth in portfolio assets. Equity consisted of $1.1 billion in paid-up capital, $804 million in retained earnings and $2.8 million in accumulated other comprehensive loss. As a result of the adoption of new Canadian Institute of Chartered Accountants (CICA) accounting requirements for financial instruments, BDC included a new section in shareholder's equity, called Accumulated other comprehensive income (loss) (AOCI). The purpose of this new section is explained in Note 2 to the Consolidated Financial Statements.

Retained earnings grew by $62.4 million in fiscal 2008 to $804.0 million, with a consolidated net income of $84.6 million, declared dividends of $21.5 million and a transition adjustment attributable to the adoption of new CICA accounting standards for financial instruments of $0.6 million.

Return on common equity was 4.7%, below the 8.5% reported in fiscal 2007 and the 7.1% planned in fiscal 2008.

TOTAL SHAREHOLDER'S EQUITY

as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008**
Common shares*	586.2	836.2	836.2	836.2	**836.2**
Preferred shares	230.0	230.0	230.0	230.0	**230.0**
Retained earnings	402.3	503.4	625.1	741.5	**804.0**
Accumulated other comprehensive income (loss)	–	–	–	–	**(2.8)**
Total shareholder's equity	1,218.5	1,569.6	1,691.3	1,807.7	**1,867.4**
Return on common equity	5.1%	9.7%	9.2%	8.5%	**4.7%**

* Includes $27.8 million of contributed surplus.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 20 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

The *Pension Benefits Standards Act* of 1985 and related regulations determine registered pension funding requirements, while the *Income Tax Act* and its regulations define funding limits. BDC temporarily suspended employer contributions to the registered pension plan between 1994 and 2005, and employee contributions between 1997 and 2005, due to funding surpluses. In July 2005, BDC gradually began phasing in employee contributions, and full contributions were re-instated in July 2007.

As of December 2007, the registered pension plan enjoyed a funding surplus on a going-concern basis and a funding deficit on a hypothetical solvency basis. BDC's employer contributions totalled $17.3 million in fiscal 2008, compared to $27.5 million in fiscal 2007. In the past, the supplemental plans were mostly unfunded, but BDC chose to fund the plans in fiscal 2006. BDC contributed $10.1 million in fiscal 2008, compared to $9.3 million in fiscal 2007. Other employee future benefits remain unfunded.

CAPITAL MANAGEMENT

Statutory Limitations

BDC's debt-to-equity ratio cannot exceed 12:1. At March 31, 2008, it was at 4.8:1, compared to 4.6:1 at March 31, 2007. Moreover, BDC's paid-in capital must not exceed $1.5 billion. Paid-in capital amounted to $1.1 billion in fiscal 2008, unchanged from fiscal 2007, since we received no additional capital.

Capital Adequacy

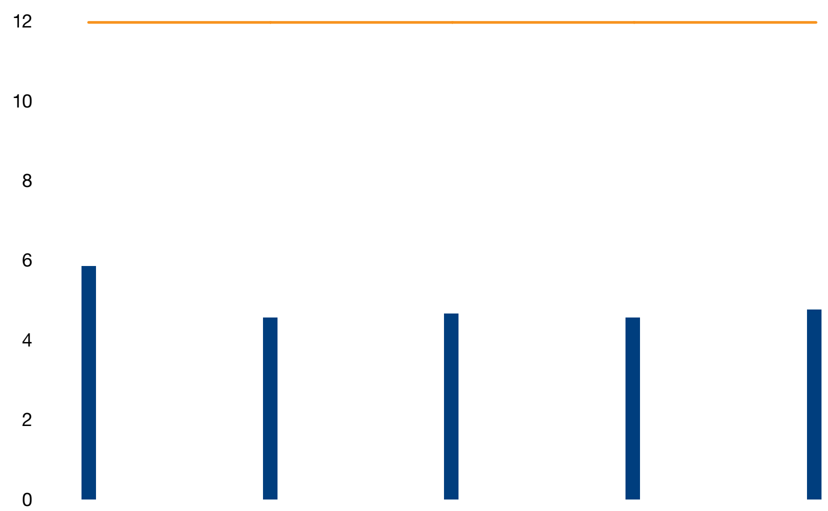
Treasury Board of Canada, Secretariat provides BDC with guideline capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure BDC can withstand unfavourable economic circumstances without requiring additional government funding.

Adequate capital ratios reflect the relative risk of the various asset types we hold. The required capital is 10% of net value for term loans, 25% for quasi-equity loans and 100% for venture capital investments. The shareholder reconfirmed these ratios in fiscal 2003. BDC operates in accordance with its regulatory capital ratios.

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that comply with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks. Our model now assesses operational risks more accurately, based on internally observed measures rather than external industry benchmarks.

DEBT-TO-EQUITY RATIO

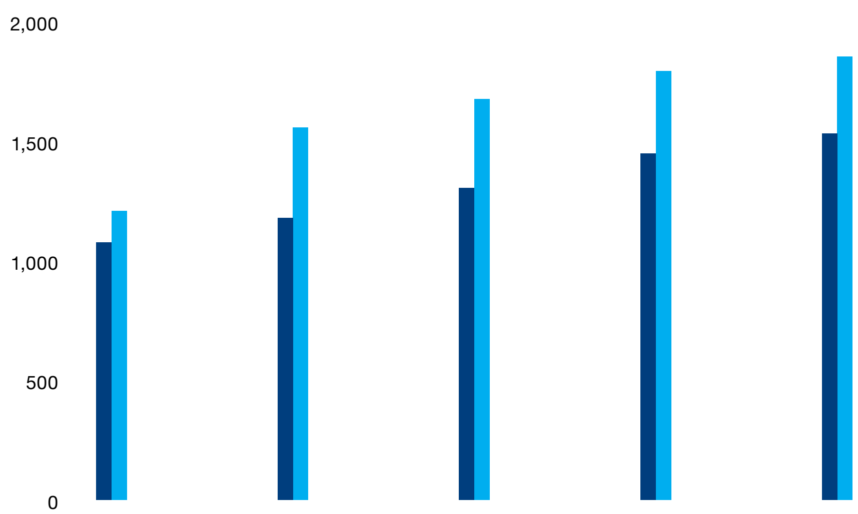
as at March 31



	2004	2005	2006	2007	**2008**
Actual	5.9	4.6	4.7	4.6	**4.8**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

CAPITAL ADEQUACY

as at March 31 ($ in millions)



	2004	2005	2006	2007	**2008***
Minimum capital required	1,086	1,189	1,316	1,460	**1,545**
Actual	1,219	1,570	1,691	1,808	**1,870**

* Excludes accumulated other comprehensive income.

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RISK MANAGEMENT

INTRODUCTION

Risk is an inherent feature of the financial sector. We focus on entrepreneurial projects; this usually entails high-risk loans or investments.

As required by our sole shareholder, the Government of Canada, we are commercially viable. Commercial viability enables us to fulfill our mandate, grow and invest in the services we offer to entrepreneurs. Specifically, we are to generate a long-term return on common equity that is at least equal to the government's average long-term cost of capital.

For parliamentarians and public servants, it is important to know that BDC uses its strong capital base and sophisticated risk management systems to manage various kinds of risk, including the largest risk – the credit risk in the loan portfolio. We use a risk management framework based on the principles of autonomy and commercial viability.

OUR MANDATE POINTS US TOWARD HIGH-RISK PROJECTS. WE OFFER OUR CLIENTS AS MUCH SUPPORT AS OUR CAPITAL REQUIREMENTS PERMIT.

DEFINITIONS

Credit risk is the risk of loss that arises from the possibility of default by a borrower or investee (either directly or indirectly), the issuer of an asset, or a counterparty with whom BDC does business.

Environmental risk is the risk that BDC will lose money due to an environmental hazard, including environmental hazards that we did not foresee or properly manage.

Interest rate risk is the risk that market interest rate fluctuations will decrease the value of financial instruments.

Issuer/counterparty risk is the risk that a counterparty's credit rating will be downgraded or that the counterparty will default, resulting in a loss in the value of outstanding financial instruments, if the counterparty cannot meet its contractual obligations.

Legal and regulatory risk arises when BDC transacts with a counterparty that lacks the legal or regulatory authority to engage in the transaction, when changes to laws or regulations adversely affect the value of a set of transactions, or when derivatives documentation is missing or inappropriate.

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due.

Loan credit risk is the risk that BDC will lose money when a client defaults on a loan.

Loan portfolio concentration risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time.

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external events beyond our control such as natural disasters. It includes all risks – such as business, legal and compliance risks – that are not credit, market or reputational risks.

Reputational risk is the risk of engaging in any activities or practices, knowingly or unknowingly, that will harm the public's perception of BDC, its image or its brand, or reflect poorly on the shareholder.

Treasury risks are risks that arise when BDC issues debt in the market to fund its lending operations. They include liquidity risk, market risk, counterparty credit risk, operational risk, and legal and regulatory risk.

GOVERNANCE

In January 2008, BDC's Board of Directors reviewed and approved the enterprise risk management (ERM) policy. This policy codifies the integrated, enterprise-wide process by which we identify, assess, measure, manage and report risk concerns, events, exposures and potential opportunities. ERM is a framework policy that ensures we are methodical and consistent in our planning, decision-making and operations. It precludes us from managing risk in an uncoordinated or piecemeal way.

The **Board of Directors** approves broad risk policy concepts, risk appetite and strategies; ensures BDC's risk management and control framework is effective; reviews portfolio and major risks and management plans; and reviews capital adequacy.

The **Credit/Investment and Risk Committee** of the Board of Directors reviews for approval large financing and venture capital investments.

BDC has four management committees that administer various aspects of the ERM policy.

The **ERM Committee** identifies, assesses and quantifies ongoing risks and opportunities in our day-to-day operations. ERM Committee members come from a cross-section of departments and disciplines. Their mandate is to develop and oversee the implementation of action plans that span business units. They also meet at least twice a year to consider the non-financial risks facing BDC and to propose plans to address them.

The **Asset and Liability Committee** oversees treasury funding and compliance with the treasury risk policy, including the matching of assets and liabilities.

The **Portfolio Outlook Committee** reviews loan portfolio concentrations, risk migration, and overall risk assessment and quality, and recommends actions. This committee comprises representatives from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management.

The **Credit/Risk Committee** is composed of senior employees appointed by the president. Its role is to scrutinize high-risk credit decisions.

Enterprise Risk Management Structure

BOARD OF DIRECTORS

Enterprise Risk Management (ERM) Policy

Credit/Investment and Risk Committee

SENIOR MANAGEMENT TEAM

Enterprise Risk Management (ERM) Committee

Asset and Liability Committee

Portfolio Outlook Committee

Credit/Risk Committee

INTERNAL AUDIT

MANAGING RISKS: PROCESSES

The first step is to detect and identify risk. BDC does constant, radar sweep-like scans of its risks. We review our activities and identify significant corporate risks informally through senior management discussions at weekly meetings. Formal and informal risk discussions take place at local levels around all business transactions and developments. These discussions also arise when we apply due diligence processes.

BDC's business unit managers do the first scans. Every year, they identify their top risks. For each risk, they write an action plan to mitigate, avoid or accept it, with an estimate of the money or resources they would need to implement the plan.

The ERM team compiles, quantifies and assesses the business units' risks in a report for the ERM Committee. The report summarizes the risks and identifies the ones that might affect BDC as a whole. The ERM team then works with each business unit to prioritize and implement the action plans.

Every year, the ERM Committee and the Board assess BDC's top risks. We analyze the likelihood of each risk happening and its potential impact on BDC's business objectives. We also assess the measures we are using to mitigate it. Employees from a cross-section of departments identify, assess and rank the risks. Senior managers develop action plans for the top risks and discuss them with the Board of Directors.

Every three months, senior managers send the Board an updated ERM report that outlines the performance of the financing, subordinate financing and venture capital portfolios; their adherence to BDC's risk tolerance limits; and the status of the risk indicators we are monitoring.

Every year, unit managers evaluate the status of risk mitigation actions, and outline and confirm actions BDC will take. In addition, each business unit does a risk scan and assessment as part of its planning process.

At least every third year, BDC assesses and prioritizes risks at both the corporate and the significant operational or functional unit levels. These units develop and implement action plans and best practices within BDC's available capacities, on a timetable that respects competing operational priorities. They assess the risks of all significant projects, new products and new policy developments as they arise. Units sustain risk assessments by regularly informing senior management and the Board of Directors of business risks.

Every day, BDC manages the quality of its individual loans by cultivating solid working relationships with its entrepreneur clients, monitoring their financial conditions, and monitoring employees' adherence to policies and controls. Every three months, our senior managers meet formally to review trends, concentrations, risk indicators and loan quality assessments, and to adjust marketplace strategies so that they reflect the business risk levels BDC considers acceptable. After these quarterly meetings, senior managers discuss their findings and courses of action with the Credit/Investment and Risk Committee of the Board of Directors.

This constant flow of precise information has two benefits: greater responsiveness at the local business unit level and sharpened managerial oversight.

Managing Credit Risk in the Loan Portfolio

The most important risk for BDC to manage is the credit risk derived from its commercial term lending – the largest part of BDC's portfolio. This lending is widely diversified and pan-Canadian. We hold the loans to maturity, as we do not use market instruments – such as credit derivatives or portfolio securitization practices – to offset this risk.

Our managers use a sophisticated monitoring system that constantly scans both new loans and the portfolio of existing loans. Every week, this system provides in-depth analyses and warnings of trends that might require quick corrective action. It also gives information about the causes of problems: details specific to the industry sector, geographic location, branch, loan size or loan type.

This system puts information into the hands of the unit managers responsible for monitoring risk, while keeping senior managers abreast of all developments.

It is at the branch level that we choose to take or avoid risk on individual transactions. We use all the tools, knowledge and research at our disposal to evaluate all potentially important risks. We ensure that we are appropriately compensated for each level of risk. The Credit Risk Committee, which comprises senior employees appointed by the president, scrutinizes high-risk credit decisions. Members bring their advanced knowledge, skills and experience to these decisions. The Credit Risk Committee's principal responsibility is to adjudicate credit within prescribed limits.

For larger transactions, the Credit Risk Committee makes recommendations to the Credit/Investment and Risk Committee of the Board of Directors for approval. It also reviews any transactions involving parties related to or referred by members of Parliament, senators or fellow board members.

Two teams, the internal audit team and the portfolio risk management team, review loan quality monthly. Each review examines a sample of loans to ensure that the employees who approved them respected BDC's policies, performed due diligence and did proper risk assessments. We use the results of these reviews to train employees, to continually improve their performance.

The internal audit team also examines branch operations to determine loan portfolio credit risk and to ensure branches are complying with BDC's policies and procedures. The team alerts management to any negative trends in operational or procedural risks that it identifies, and managers ensure that the employees responsible take corrective action. We use all of these findings to identify opportunities to improve processes, or to provide more training to reduce our operational risk exposure.

Loan credit risk is the risk that BDC will lose money when a client defaults on a loan. Recall that our mandate requires us to lend to a high-risk segment of the Canadian commercial loan sector. We base our decisions on our experience with similar clients, and we use policies, procedures and risk assessment tools to help us make these decisions. A risk-rating framework helps us properly price our loans according to the risk taken and our loss experience with similar transactions. The risk rating helps us understand the degree of risk in our underwriting and management of all loans in our portfolio.

We report formally to senior managers and the Board every quarter, and informally to managers as required. We decentralize our underwriting decisions and subject them to independent review and audit. All of our managers are trained to assess overall credit risk.

Loan portfolio concentration risk is the risk that BDC will lose money when several borrowers in the same industry or area default at the same time. We diversify our loan portfolio by industry sector and geographic region. We have established portfolio thresholds to manage the associated credit risk on an aggregate basis. We review these thresholds every six months to ensure they are still appropriate, given Canada's current business landscape. This way, we manage the impact of correlations between exposures and protect BDC against the potential negative economic impact of such events as pandemics or international trade disputes. Concentration limits related to individual client maximum commitment are recommended to the Portfolio Outlook Committee and approved by the Board.

Our portfolio management information system allows us to quickly identify trends by providing weekly information on five risk indicators for new loans and nine performance indicators for the portfolio as a whole. Risk indicators are disaggregated by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Alert reports enable managers to take any corrective action needed.

Managing Market Risk in the Venture Capital Portfolio

Early-stage venture capital investments are notoriously risky by nature. They are also a public policy imperative: Canada's knowledge-based economy needs them. The long-term recipe for national prosperity must include globally successful companies that specialize in highly innovative sectors, such as life sciences and information technology.

Venture capital investments take great patience. It takes many years, millions of dollars and a sequenced range of separate, sophisticated skills to turn an innovative idea or technology into a profitable global company. Usually, it is only when the innovation has led to a profitable company that investors can sell their stake to make a profit. This means that, initially, venture capital investments consume more capital than they generate.

The vagaries of financial markets, as well as the presence and appetite of buyers, dictate the timing of our divestments. This timing, in turn, affects the value of our venture capital investments. In fiscal 2008, there were few opportunities for profitable divestment.

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices. To manage this risk in our venture capital portfolio, we use a rigorous selection process and work closely with our investee companies. Because market risk is due to external events beyond our control, we use sophisticated financial instruments to keep risk exposure within approved limits.

We investigate the firm's products and services before we invest, and favour breakthrough products and services that are unique or that have clear advantages over existing ones. We also assess the experience, expertise and commitment of the firm's managers. Finally, we study the size and dynamics of the market in which the firm is operating, as well as any competing firms that exist or that might develop in the foreseeable future. Where we deem it prudent, we hire outside experts to independently validate our findings.

We also lower the risk of our venture capital investments by applying conservative company valuations, co-investing with other venture capital investors and monitoring investments regularly. We divest our successful venture capital interests when the investee companies are taken over by other companies, or when they go public through an initial public offering.

The Internal Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within the committee's delegated limits. For larger transactions, this committee makes recommendations to the Credit/Investment and Risk Committee of the Board for approval.

Managing Operational Risk

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or external events beyond our control. BDC has internal control systems and processes for its business transactions. A comprehensive set of policies and procedures governs the way we process information, administer loans, manage human resources and carry out our activities. When we review our top risks, we include the action plans that govern operational risks.

We review written-off accounts and identify any operational risks associated with loan operations. By compiling these risks, we can modify our internal control procedures, if necessary.

We have a comprehensive business recovery planning process to ensure the continuity of key business functions in case of disaster. We regularly review and test our contingency planning, including the ways we would prepare for and respond to a flu pandemic.

We manage the risks associated with technology and telecommunications failures by replacing and upgrading computer systems and equipment. We have security and control procedures to respect laws and privacy standards, and to ensure that we keep our information accurate and manage it efficiently. We regularly test these systems to ensure they are reliable.

To mitigate operational risk, we use internal control systems, policies and procedures. We monitor these tools at various levels in our organization and verify them by internal audit.

Managing Treasury Risk

Each day and at several internal levels, in compliance with established policies, we monitor the risks inherent in BDC's treasury operations. The Asset and Liability Committee meets quarterly to review treasury operations and to ensure we are responsibly managing our financial risks. It also reports quarterly to the Board of Directors.

Liquidity risk: The primary responsibility of BDC's treasury operations regarding liquidity management is to ensure that BDC can meet its payment obligations in a timely, cost-effective way. We have a well-defined liquidity and investment management policy, which includes liquidity limits that the Treasury Risk Management Unit monitors daily. BDC's policy also includes clear guidelines for issuing institutions, all of which have credit ratings of "A" or better, as assessed by an external rating agency. This approach ensures that we place our short-term investments in liquid assets that we can access when we need to.

Market risk: BDC funds its operations by issuing commercial paper and mid- to long-term notes. BDC is permitted to issue debt in domestic and foreign markets, using various types of currencies and structures, as long as we eliminate exposure to foreign currency or foreign interest rate fluctuations, as required by the Department of Finance. We complete all hedging transactions with approved high-quality counterparties, all of which have credit ratings of "A-" or better, as assessed by an external rating agency.

We have never held and have no exposure to non-bank asset-backed commercial paper.

Interest rate risk: We make loans with both floating and fixed interest rates, try to ensure that our borrowing strategies match these types of loans wherever possible, and use derivative instruments to manage any gaps. The graph on page 42 shows BDC's asset and liability position as of March 31, 2008, after taking into account derivative transactions.

BDC's treasury risk policy helps us proactively manage market risk exposure arising from potential adverse movements in interest rates. The policy aims to minimize the impact of these variations on net interest income and BDC's economic value. BDC establishes acceptable ranges on the sensitivity of the net interest income based on projections over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points.

Issuer/counterparty risk: To mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to issuers and derivative counterparties. The Treasury Risk Management Unit also ensures that BDC enters into prescribed derivative transactions with counterparties that have an acceptable credit rating and that have signed an International Swaps and Derivatives Association (ISDA) master agreement. The ISDA agreement includes a credit support annex, which defines a limit over which a collateral transfer is required from the counterparty to bring the value of its credit risk exposure back under the threshold amount. Finally, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have acceptable credit ratings.

Managing Environmental Risk

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan. We also have a monitoring process to ensure that we continue to identify and appropriately manage these potential risks.

Managing Reputational Risk

We systematically identify the issues (current and potential) that may pose challenges to our reputation. To each we assign an action plan and resources. We increase our awareness of society's expectations of BDC through dialogue with our stakeholders – first and foremost Parliament and our shareholder, the Government of Canada.

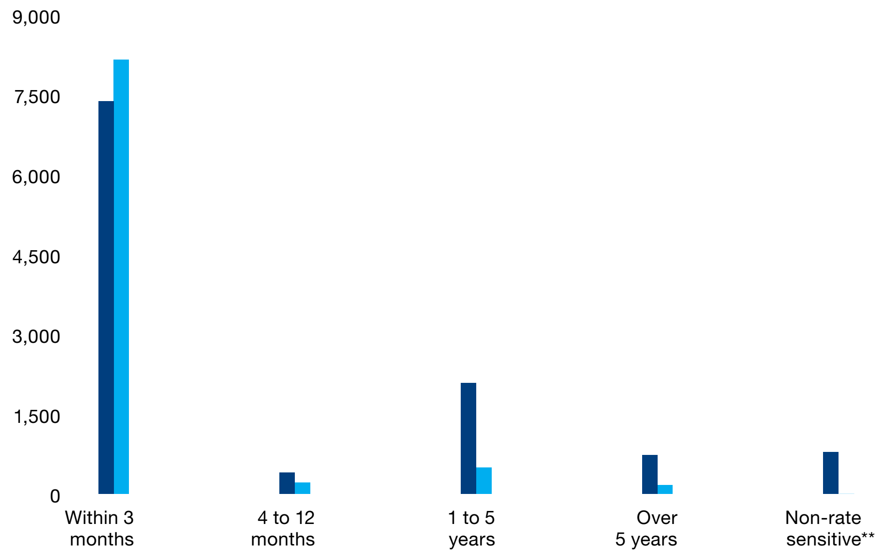
Risk Model

FINANCIAL RISK
Loan credit risk
Loan portfolio concentration risk
Venture capital portfolio risk
Treasury risk

OPERATIONAL RISK
Human resources
Process management
Systems management
Legal
Compliance

TREASURY INTEREST RATE SENSITIVITY ASSET AND LIABILITY GAP

as at March 31, 2008 ($ in millions)



	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive**
Assets*	7,442	402	2,103	738	790
Liabilities	8,228	216	500	170	0

* Before allowance for credit losses.

** Excludes derivative assets, other assets, derivative liabilities and other liabilities.

5.

ACCOUNTING AND CONTROL MATTERS

CRITICAL ACCOUNTING ESTIMATES

BDC's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and applied consistently from period to period. Critical accounting policies include those related to the allowance for credit losses and the fair value of financial instruments, including venture capital and subordinate financing investment, as well as pension and other employee future benefits.

Allowance for Credit Losses

The allowance for credit losses is management's estimate of probable credit-related losses in the financing portfolio. The allowance for credit losses comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make certain assumptions and judgements, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends in relation to impairments, write-offs and recoveries, and portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains its allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of its financing activities.
Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

Fair Value of Financial Instruments

With the adoption of the four new accounting standards related to financial instruments on April 1, 2007, a greater portion of our Consolidated Balance Sheet is now measured at fair value. Under the new standards, all financial instruments are required to be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost. A more complete description of the accounting treatment of financial instruments is presented in Note 2 to the Consolidated Financial Statements.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. Published price quotations in an active market are the best evidence of fair value and, when they exist, BDC uses them to measure financial instruments. If a financial instrument's market is not active, its fair value is established using valuation techniques that make use of observable market inputs.

Investments held by investment companies are also recorded at fair value under generally accepted accounting principles (GAAP). As most of these investments are in private companies, no readily available market value exists and judgement is required in determining their fair value. BDC derives its approach to fair value measurement from investment industry guidelines. Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of its investments. Fair value is management's best estimate and involves significant assumptions, such as the capitalization or discount rate.

Due to the judgement used in calculating fair values, they are not necessarily comparable among financial institutions and may not be indicative of net realizable value.

Pension and Other Employee Future Benefits

BDC provides defined benefit pension plans and other benefit plans to eligible employees after their retirement. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement and post-employment benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions that management determines. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and mortality rates. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 20 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

FUTURE CHANGES IN ACCOUNTING POLICIES

In December 2006, the CICA published three new standards: Section 1535 *Capital Disclosure*; Section 3862 *Financial Instruments—Disclosure*; and Section 3863 *Financial Instruments—Presentation*. These standards will apply to BDC for the year ending March 31, 2009.

Capital Disclosure

Section 1535 establishes requirements to disclose both qualitative and quantitative information on capital management. It requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) any capital requirements with which the entity has complied; and (iv) the consequences of non-compliance with such capital requirements.

Financial Instruments: Disclosure and Presentation

Sections 3862 and 3863 establish comprehensive disclosure and presentation requirements related to financial instruments. The standards revise the current disclosure requirements of CICA Handbook Section 3861, *Financial Instruments—Disclosure and Presentation,* and place an increased emphasis on disclosures regarding the risks associated with financial instruments and the way these risks are managed.

International Financial Reporting Standards (IFRS)

BDC prepares its financial statements in accordance with Canadian GAAP as defined by Canada's Accounting Standards Board (AcSB). The AcSB has announced its intention to converge Canadian GAAP with international financial reporting standards (IFRS). Effective April 1, 2011, as a Canadian publicly accountable enterprise, BDC will have to apply IFRS as a basis for financial reporting. This change is part of a worldwide shift to IFRS intended to facilitate global capital flows and to bring greater clarity and consistency to financial reporting in the global marketplace. Under its IFRS Conversion Project, BDC has already finished identifying major differences between IFRS and Canadian GAAP, and completed the detailed plan for the next stages of the project.

CONTROLS AND PROCEDURES

In fiscal 2006, BDC decided to implement a certification regime on internal controls that will do the following:

- reinforce management responsibility for financial reporting;
- encourage development and documentation of effective internal controls over financial reporting;
- encourage development of effective disclosure controls and procedures; and
- contribute to sound corporate governance practices.

BDC has already completed two of the three phases of the Internal Control Certification (ICC) Project:

- overall scoping and planning; and
- establishment of disclosure controls and procedures – including a disclosure policy, a disclosure committee and an inventory of disclosure items – and the documentation of key disclosure processes and controls.

BDC expects to complete the final phase of the ICC Project, focusing on internal control over financial reporting, at the end of fiscal 2009. This phase will centre on three types of controls: entity-level controls, process-level controls and information technology general controls.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the Vice President, Internal Audit and the independent auditors have full and free access to the Audit Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada, have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer
Montréal, Canada
May 23, 2008

Paul Buron, CA
Executive Vice President
and Chief Financial Officer

AUDITOR'S REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2008 and the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada
Montréal, Canada
May 23, 2008

Raymond Chabot Grant Thornton LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2008	2007
Assets		
Cash and cash equivalents (Note 4)	**$ 725,376**	$ 764,803
Securities (Note 5)	**91,210**	164,266
	816,586	929,069
Loans, net of allowance for credit losses (Note 6)	**9,481,449**	8,622,646
Subordinate financing loans and investments (Note 7)	**156,158**	148,290
Venture capital investments (Note 8)	**475,985**	505,118
	10,113,592	9,276,054
Fixed assets, net of accumulated amortization (Note 9)	**28,271**	33,882
Derivative assets (Note 17)	**206,882**	442,368
Other assets (Note 10)	**258,235**	122,708
	493,388	598,958
Total Assets	**$ 11,423,566**	$ 10,804,081
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**$ 65,503**	$ 67,013
Accrued interest on borrowings	**34,144**	28,408
	99,647	95,421
Borrowings (Note 11)		
Short-term notes	**5,197,591**	3,974,496
Long-term notes	**3,788,058**	4,253,371
	8,985,649	8,227,867
Derivative liabilities (Note 17)	**321,805**	530,302
Other liabilities (Note 12)	**149,148**	142,773
	470,953	673,075
Shareholder's Equity		
Share capital (Note 13)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**803,967**	741,540
Accumulated other comprehensive income (loss)	**(2,828)**	–
	1,867,317	1,807,718
Guarantees, contingent liabilities and commitments (Note 19)		
Total Liabilities and Shareholder's Equity	**$ 11,423,566**	$ 10,804,081

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the Board:

S E Bracken-Horrocks

Stan Bracken-Horrocks
Director
Chairperson, Audit Committee

Jean-René Halde

Jean-René Halde
Director
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)

	2008	2007
Financing		
Interest income		
Loans	**$ 798,805**	$ 737,634
Cash equivalents and securities	**47,880**	41,360
	846,685	778,994
Interest expense	**372,872**	330,538
Net interest income	**473,813**	448,456
Other income	**33,399**	28,548
Provision for credit losses (Note 6)	**101,482**	67,890
Income before operating and administrative expenses	**405,730**	409,114
Operating and administrative expenses (Note 15)	**244,852**	241,122
Income from Financing	**160,878**	167,992
Subordinate Financing		
Interest income	**18,446**	17,876
Interest expense	**4,715**	4,098
Net interest income	**13,731**	13,778
Realized gains and losses on investments and other income	**10,014**	13,755
Change in unrealized depreciation of investments	**(299)**	(7,253)
Income before operating and administrative expenses	**23,446**	20,280
Operating and administrative expenses (Note 15)	**12,439**	12,335
Income from Subordinate Financing	**11,007**	7,945
Venture Capital		
Net realized losses on investments	**(40,902)**	(1,153)
Interest, dividends and other	**9,713**	8,275
Net gains on foreign exchange contracts	**11,176**	1,402
Change in unrealized depreciation of investments	**(49,997)**	(27,428)
Loss before operating and administrative expenses	**(70,010)**	(18,904)
Operating and administrative expenses (Note 15)	**12,791**	14,700
Loss from Venture Capital	**(82,801)**	(33,604)
Consulting		
Revenue	**24,802**	23,523
Operating and administrative expenses (Note 15)	**29,323**	27,849
Loss from Consulting	**(4,521)**	(4,326)
Net Income	**$ 84,563**	$ 138,007

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 14 provides additional information on earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 ($ in thousands)

	2008	2007
Net income	**$ 84,563**	$ 138,007
Other comprehensive income (loss)		
Net change in unrealized gains on available-for-sale assets	**283**	–
Net change in fair value of cash flow hedges	**(584)**	–
Other comprehensive income (loss)	**(301)**	–
Comprehensive income	**$ 84,262**	$ 138,007

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

	2008	2007
Share capital (Note 13)	**$ 1,038,400**	$ 1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings, beginning of year	**741,540**	625,099
Transition adjustment on financial instruments (Note 2)	**(639)**	–
Net income	**84,563**	138,007
Dividends on common shares	**(12,048)**	(12,131)
Dividends on preferred shares	**(9,449)**	(9,435)
Retained earnings, end of year	**803,967**	741,540
Accumulated other comprehensive income (loss), beginning of year	–	–
Transition adjustment on financial instruments (Note 2)	**(2,527)**	–
Other comprehensive income (loss)	**(301)**	–
Accumulated other comprehensive income (loss), end of year	**(2,828)**	–
Total Retained earnings and Accumulated other comprehensive income (loss)	**801,139**	741,540
Total Shareholder's equity	**$ 1,867,317**	$ 1,807,718

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 ($ in thousands)

	2008	2007
Cash Flows Provided by Operating Activities		
Net income	**$ 84,563**	$ 138,007
Adjustments to determine net cash flows:		
Net realized losses (gains) on investments	**43,504**	(1,927)
Change in unrealized depreciation on investments	**50,296**	34,681
Net unrealized losses (gains) on financial instruments	**5,302**	(630)
Unrealized loss (gain) on foreign exchange contract	**2,902**	(1,402)
Provision for credit losses	**101,482**	67,890
Amortization of fixed assets	**13,169**	13,162
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	**1,550**	(6,585)
Change in accrued interest on borrowings	**5,736**	7,202
Translation adjustment on borrowings and securities	**70,475**	(86,588)
Transition adjustment on financial instruments	**(3,166)**	–
Change in fair value of derivative financial instruments	**(156,817)**	124,071
Change in fair value of securities and long-term notes	**91,674**	–
Net change in other assets and other liabilities	**44,913**	(32,198)
Net Cash Flows Provided by Operating Activities	**355,583**	255,683
Cash Flows Used in Investing Activities		
Purchases of securities	**–**	(75,018)
Maturities of securities	**78,011**	98,814
Disbursements for loans and subordinate financing	**(2,880,580)**	(2,484,922)
Repayments of loans and subordinate financing	**1,907,687**	1,922,286
Disbursements for venture capital investments	**(129,682)**	(133,364)
Proceeds on sales of venture capital investments	**67,915**	31,044
Acquisition of fixed assets	**(7,558)**	(9,383)
Net Cash Flows Used in Investing Activities	**(964,207)**	(650,543)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	**1,193,562**	(190,799)
Issue of long-term notes	**490,228**	1,113,479
Repayment of long-term notes	**(1,093,111)**	(494,900)
Dividends paid on common and preferred shares	**(21,482)**	(20,847)
Net Cash Flows Provided by Financing Activities	**569,197**	406,933
Net (decrease) increase in cash and cash equivalents	**(39,427)**	12,073
Cash and cash equivalents at beginning of year	**764,803**	752,730
Cash and cash equivalents at end of year (Note 4)	**$ 725,376**	$ 764,803
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	**$ 364,406**	$ 327,426

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

Act of Incorporation, Objectives and Operations of the Corporation 1

The Business Development Bank of Canada (BDC) is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC issues debt instruments, which are secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the issuance of hybrid capital instruments to provide the capital required to meet the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2008.

BDC is for all purposes an agent of Her Majesty in right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* and is accountable for its affairs to Parliament through the Minister of Industry.

Significant Accounting Policies 2

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans, actuarial estimates of employee future benefits and fair values of financial instruments including venture capital and subordinate financing investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these management judgements. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized on the following pages.

BASIS OF CONSOLIDATION

BDC conducts business through a variety of corporate structures, including a subsidiary and joint ventures. The subsidiary is controlled through 100% ownership of its voting shares. Joint ventures are those where BDC, or its subsidiary, exercises joint control through an agreement with third parties. All of the assets, liabilities, revenues and expenses of the wholly owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures, are included in these Consolidated Financial Statements. Joint ventures held by BDC's subsidiary are recorded at fair value. All inter-company transactions and balances have been eliminated.

SIGNIFICANT ACCOUNTING CHANGES

On April 1, 2007, BDC adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement;* Section 3865, *Hedges;* and Section 3861, *Financial Instruments – Disclosure and Presentation*. These standards were applied prospectively.

Financial Instruments – Comprehensive Income

Section 1530 introduces Comprehensive income, which consists of Net income and Other comprehensive income (loss) (OCI). OCI represents changes in Shareholder's equity, during a period arising from transactions and other events that include unrealized gains and losses on financial assets classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. The Consolidated Financial Statements include a Statement of Comprehensive Income for the changes in these items since April 1, 2007, while the cumulative changes in OCI are included in Accumulated other comprehensive income (loss) (AOCI), which is presented as part of Shareholder's equity on the Balance Sheet.

2 – Significant Accounting Policies (continued)

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Balance Sheet when BDC becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for all financial instruments. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in Net income. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in OCI. Financial assets classified as loans and receivables, and other financial liabilities, are measured at amortized cost. Derivative instruments are recorded on the Balance Sheet at fair value. Changes in the fair value of derivative instruments are recognized in Net income, except for derivatives designated as effective cash flow hedges or hedges of foreign currency exposure, for which the changes in fair value are recognized in OCI. BDC accounts for all financial instruments using settlement date accounting.

As at April 1, 2007, BDC recognized all of its financial assets and liabilities according to their classification. Any adjustment made to a previous carrying amount was recognized as an adjustment to the balance of Retained earnings at that date or as an adjustment to the balance of AOCI:

	Retained earnings	AOCI
Derivative financial instruments – fair value adjustments	$ (215,201)	$ 7,781
Long-term borrowings designated as held-for-trading	214,559	–
Securities classified as available-for-sale	–	(10,321)
Cash equivalents classified as available-for-sale	–	13
Cash equivalents classified as held-for-trading	3	–
	$ (639)	$ (2,527)

Financial Instruments – Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. BDC uses derivatives and non-derivative financial instruments in hedging strategies to manage exposures to interest, currency and other market risks. BDC determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge or a cash flow hedge.

Embedded Derivatives

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments. They are then measured at fair value; changes in fair value are recognized in Net income, and transaction costs from these embedded derivatives are recognized in Net income as operating and administrative expenses. As at March 31, 2008, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

LOANS

Following the implementation of Section 3855, *Financial Instruments – Recognition and Measurement,* loans were classified as loans and receivables. They are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis, except for loans that are considered impaired.

Loans are classified as impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of Interest income ceases and any previously accrued interest that is unpaid is reversed against Interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case Interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded either as Interest income or as a reduction of the provision for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the Balance Sheet date. The allowance is increased by an annual provision for credit losses, which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses comprises specific and general allowances.

2 – Significant Accounting Policies (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent at the date of the impaired loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances, as well as subsequent changes thereto, are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the Balance Sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

INVESTMENTS

Venture capital investments and Subordinate financing investments are measured and presented at fair value.

Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents management's best estimate of the net worth of an investment at the Balance Sheet date and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on investments are recognized at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Net gains on foreign exchange contracts represent realized and unrealized gains and losses on foreign exchange contracts classified as held-for-trading and measured at fair value. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the Balance Sheet date.

BDC's approach to fair value measurement has been derived from international guidelines. Based on the type of investments BDC carries out, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

FIXED ASSETS AND AMORTIZATION

Fixed assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the asset as follows:

Computer and telecommunication equipment	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Systems development costs	3 to 7 years

PREMIUMS AND DISCOUNTS ON BORROWINGS

Premiums and discounts on borrowings are amortized over the life of the obligation using the effective interest rate method.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. With the exception of financial instruments classified as available-for-sale, foreign exchange gains and losses are included in Net income for the year. Exchange gains and losses for financial instruments classified as available-for-sale are included in OCI.

DERIVATIVE FINANCIAL INSTRUMENTS

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from Balance Sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps and forward foreign exchange contracts are used to manage exposure resulting from foreign currency-denominated borrowings and securities.

BDC has recently implemented the new accounting standards Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges*. Derivatives not under hedge accounting are classified as held-for-trading and are measured at fair value with changes recorded in Net income. Derivatives under hedge accounting are designated as cash flow hedges and are measured at fair value with changes recorded in OCI.

BDC documents all hedge relationships and its risk management objective along with its strategy for carrying out the hedge transactions. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Financial Statements. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items, both at inception and over the life of the hedge. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of Interest expense over the term of the forward contract.

2 – Significant Accounting Policies (continued)

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other benefit plans, such as post-employment benefits and post-retirement benefits for eligible employees.

The cost of pension and other employee future benefits earned by employees is determined annually on an actuarial basis using the projected benefit method, pro-rated on service and management's best estimate assumptions, such as the expected long-term rate of return on plan assets, discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

The pension costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of net actuarial gains and losses, past service costs, and transitional assets and obligations. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets. The market-related value of plan assets is established as follows:

- Short-term investments are valued at quoted market rates of return.
- Bonds are valued at market rates.
- Common and preferred shares are valued at fair value based on published closing prices on the stock exchange on which they are listed, or at the average of the last bid and ask prices if the instruments were not traded on the fair value evaluation date.

Actuarial gains (losses) on plan assets arise from the difference between the actual return (loss) on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

Each fiscal year, actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized. The average remaining service period of the active employees covered by:

- the registered and supplemental pension plans is 8.1 years (8.2 years in 2007); and
- the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2007).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that are now being amortized to expense on a straight-line basis over the average remaining service period of BDC's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period was 8.5 years for the registered pension plan and the supplemental pension plans.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

Future Accounting Changes 3

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures;* and Section 3863, *Financial Instruments – Presentation*. These new standards will apply to BDC for the year ending March 31, 2009.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and about the way the entity manages those risks.

Cash and Cash Equivalents 4

	2008	2007
Bank account balances, net of cheques outstanding	**$ (15,368)**	$ (4,984)
Short-term bank notes		
Available-for-sale	**710,432**	769,787
Held-for-trading	**30,312**	–
	740,744	769,787
Cash and cash equivalents	**$ 725,376**	$ 764,803

Cash equivalents include short-term bank notes that have maturities at the original acquisition date of less than 90 days. As at March 31, 2008, cash equivalents have been classified as available-for-sale and held-for-trading.

AVAILABLE-FOR-SALE

Available-for-sale bank notes are measured at fair value with unrealized gains and losses recorded in OCI until the security is sold. Gains and losses on disposal are recorded in Other income. Interest income earned on available-for-sale bank notes is recorded in Interest income.

HELD-FOR-TRADING

Held-for-trading bank notes are notes that BDC purchases for resale over a short period of time. BDC records these bank notes at their market value and records the mark-to-market adjustments in Net interest income, and any gains and losses on the sale of these bank notes in Other income. Interest income earned on held-for-trading cash equivalents is recorded in Interest income.

The fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

Securities 5

	Term to maturity		2008	2007
	Within 1 year	1 to 3 years	**Total**	Total
Financial institutions				
Amortized cost	$ 40,810	$ 50,242	**$ 91,052**	$164,266
Yield	4.50 %	4.80 %	**4.67 %**	4.54 %
Fair value	$ 40,905	$ 50,305	**$ 91,210**	$163,956
Gross unrealized gains			**$ 158**	$ 65
Gross unrealized losses			**–**	375
Interest income from securities			**$ 5,437**	$ 9,016
Securities in foreign currencies				
US dollars – amortized cost			**$ 15,400**	$ 35,900
Euros – amortized cost			**€ 31,000**	€ 31,000
Total in Canadian dollars*			**$ 66,188**	$ 89,249

* Included in the fair value of securities in 2008 and amortized cost in 2007.

BDC holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of securities that can be held by BDC.

All securities held as at March 31, 2008, are classified as available-for-sale. Available-for-sale securities are measured at fair value with unrealized gains and losses recorded in OCI until the security is sold. Gains and losses on disposal are recorded in Other income. Interest income earned on available-for-sale securities is recorded in Interest income. Available-for-sale securities consist of debt securities that may be sold in response to or in anticipation of changes in counterparty credit risk evaluations, to meet liquidity needs or interest rate fluctuations.

5 – Securities (continued)

All securities held as at March 31, 2008, were issued by Canadian entities at fixed or floating rates. Yields are based upon carrying values and contractual interest adjusted for amortization of premiums and discounts. Term-to-maturity classifications are based on the contractual maturity of the security. The fair value is based on market quotes, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, BDC has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and foreign exchange risks associated with the above securities.

Loans 6

The following table summarizes loans outstanding as at March 31. Floating rate loans are classified based on their maturity date and fixed rate loans are classified based on the repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	**Total net amount**
Performing	**$ 566,213**	**$ 2,816,279**	**$ 6,338,176**	**$ 9,720,668**	**$ (420,558)**	**$ –**	**$ (420,558)**	**$ 9,300,110**
Impaired	**6,142**	**88,683**	**198,621**	**293,446**	**–**	**(112,107)**	**(112,107)**	**181,339**
Loans as at March 31, 2008	**$ 572,355**	**$ 2,904,962**	**$ 6,536,797**	**$ 10,014,114**	**$ (420,558)**	**$ (112,107)**	**$ (532,665)**	**$ 9,481,449**
Loans as at March 31, 2007*	$ 423,520	$ 2,613,143	$ 6,091,482	$ 9,128,145	$ (399,158)	$ (106,341)	$ (505,499)	$ 8,622,646

* Includes $286,500 of impaired loans.

Included in these loan figures are $9.4 million of foreclosed assets ($15 million in 2007). Foreclosed assets represent property or other assets BDC has received from borrowers to satisfy their loan commitments, and are recorded at fair value. Fair value is determined at market prices, where available, or other methods including an analysis of discounted cash flows.

ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2008	2007
Balance at beginning of year	**$ 505,499**	$ 497,319
Write-offs and other	**(76,031)**	(60,057)
Interest income due to accretion	**(4,398)**	(4,303)
Recoveries	**6,113**	4,650
	$ 431,183	$ 437,609
Provision for credit losses	**101,482**	67,890
Balance at end of year	**$ 532,665**	$ 505,499

The concentrations of the total loans outstanding by province and territory, and by industry sector, as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic distribution	**2008**		2007	
Newfoundland and Labrador	**$ 388,073**	**3.9%**	$ 364,160	4.0%
Prince Edward Island	**49,626**	**0.5%**	51,041	0.6%
Nova Scotia	**256,558**	**2.6%**	227,840	2.5%
New Brunswick	**413,277**	**4.1%**	361,661	4.0%
Quebec	**3,625,688**	**36.2%**	3,479,332	38.1%
Ontario	**3,146,308**	**31.4%**	2,893,821	31.7%
Manitoba	**230,586**	**2.3%**	212,889	2.3%
Saskatchewan	**168,877**	**1.7%**	136,565	1.5%
Alberta	**785,853**	**7.8%**	592,646	6.5%
British Columbia	**884,091**	**8.8%**	750,963	8.2%
Yukon	**40,368**	**0.4%**	31,080	0.3%
Northwest Territories and Nunavut	**24,809**	**0.3%**	26,147	0.3%
Total loans outstanding	**$ 10,014,114**	**100.0%**	$ 9,128,145	100.0%

6 – Loans (continued)

Industry sector	2008		2007	
Manufacturing	**$ 3,373,957**	**33.7%**	$ 3,182,055	34.9%
Wholesale and retail trade	**2,154,678**	**21.5%**	1,956,433	21.4%
Tourism	**1,167,434**	**11.7%**	1,052,529	11.5%
Construction	**597,948**	**6.0%**	533,698	5.8%
Transportation and storage	**531,452**	**5.3%**	480,664	5.3%
Commercial properties	**473,171**	**4.7%**	418,532	4.6%
Business services	**446,561**	**4.4%**	361,039	4.0%
Other	**1,268,913**	**12.7%**	1,143,195	12.5%
Total loans outstanding	**$10,014,114**	**100.0%**	$ 9,128,145	100.0%

Subordinate Financing Loans and Investments 7

The following table summarizes Subordinate financing loans and investments outstanding as at March 31. Floating rate loans and investments are classified based on their maturity date, and fixed rate loans and investments are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation and other	**Total net amount**
As at March 31, 2008						
Loans	**$ 8,384**	**$ 4,464**	**$ –**	**$ 12,848**	**$ (2,597)**	**$ 10,251**
Investments	**8,577**	**127,028**	**16,490**	**152,095**	**(6,188)**	**145,907**
Total	**$ 16,961**	**$ 131,492**	**$ 16,490**	**$ 164,943**	**$ (8,785)**	**$ 156,158**
As at March 31, 2007						
Loans	$ 7,985	$ 21,615	$ –	$ 29,600	$ (3,150)	$ 26,450
Investments	4,480	101,809	21,646	127,935	(6,095)	121,840
Total	$ 12,465	$ 123,424	$ 21,646	$ 157,535	(9,245)	$ 148,290

BDC holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc. BDC acts as the general partner of the limited partnerships.

The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2008	2007
Current assets	**$ 14,843**	$ 6,670
Subordinate financing investments	**145,907**	121,840
Current liabilities	**255**	347
Net interest income	**$ 15,655**	$ 12,200
Realized gains on investments and other income	**1,823**	5,012
Change in unrealized depreciation of investments	**(53)**	(6,095)
Operating and administrative expenses	**5,904**	4,667
Income from subordinate financing investments	**$ 11,521**	6,450
Cash flows provided by (used in):		
Operating activities	**$ 12,669**	$ 10,673
Investing activities	**(24,120)**	(32,730)
Financing activities	**20,811**	27,107

Venture Capital Investments 8

BDC maintains a portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.1% of total venture capital investments (3.3% in 2007).

		2008		2007
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology, medical and health	**$ 145,281**	**$ 184,376**	$ 143,451	$ 171,792
Information technology	**101,710**	**121,733**	102,330	135,674
Electronics	**70,144**	**86,246**	93,032	103,524
Communications	**91,124**	**108,902**	94,566	89,052
Industrial	**17,176**	**21,185**	22,019	24,688
Consumer-related	**200**	**200**	1,000	2,000
Energy	**1,572**	**1,250**	3,193	5,500
Other	**4,000**	**750**	5,000	750
Total direct investments	**431,207**	**524,642**	464,591	532,980
Funds	**$ 44,778**	**$ 76,793**	$ 40,527	$ 68,179
Venture capital investments	**$ 475,985**	**$ 601,435**	$ 505,118	$ 601,159

Investments are generally held for periods longer than five years. Divestitures are made through listings of investee shares on public markets, or the sale of BDC's shares to other existing shareholders or to third parties.

Investment yields vary from year to year, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

		2008		2007
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**$ 57,964**	**$ 92,134**	$ 80,367	$ 93,811
Preferred shares	**322,978**	**375,497**	331,218	374,374
Debentures	**50,265**	**57,011**	53,006	64,795
Funds	**44,778**	**76,793**	40,527	68,179
Venture capital investments	**$ 475,985**	**$ 601,435**	$ 505,118	$ 601,159

Fixed Assets 9

	Cost	**Accumulated amortization**	**Carrying value**
Computer and telecommunication equipment	**$ 33,413**	**$ 29,532**	**$ 3,881**
Furniture, fixtures and equipment	**43,884**	**38,228**	**5,656**
Leasehold improvements	**48,171**	**38,804**	**9,367**
Systems development costs	**38,713**	**29,346**	**9,367**
Total 2008	**$ 164,181**	**$ 135,910**	**$ 28,271**
Total 2007	$ 156,623	$ 122,741	$ 33,882

Other Assets 10

	2008	2007
Accrued benefit asset (Note 20)	**$ 115,844**	$ 100,672
Unamortized debt issue expenses on long-term notes	**–**	7,845
Future margin receivable	**111,831**	–
Other	**30,560**	14,191
	$ 258,235	$ 122,708

As part of the implementation of Section 3861, *Financial Instruments – Disclosure and Presentation*, Future margin receivable was reclassified from Derivative assets to Other assets. A future margin receivable amounting to $178,362 is included in Derivative assets in 2007 comparative figures.

Following the implementation of Section 3861, BDC also reclassified amounts receivable on swaps from Derivative assets to Other assets. An amount of $11,258 is included in Other assets in 2008, compared to $188,488 included in Derivative assets in 2007 comparative figures.

Borrowings 11

BDC issues short-term notes in money markets to fund its loan portfolio, which are measured at amortized cost. Foreign currency is hedged through the use of derivatives, such that essentially BDC's borrowings are effectively denominated in Canadian dollars. In addition, where appropriate, BDC enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks.

From time to time, BDC requests cash collateral from its counterparties when they exceed their limits under signed *International Swaps and Derivatives Association Agreements*. These transactions are recorded as short-term notes, classified as held-for-trading and measured at fair value. The table below presents the outstanding notes as at March 31.

				2008		2007
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes/amortized cost						
2008	4.00% – 5.18%	USD	**$ –**	**$ –**	$ 1,132,765	$ 1,297,586
		CDN	**–**	**–**	2,696,680	2,676,910
2009	1.53% – 4.73%	USD	**$ 682,205**	**$ 697,306**	$ –	$ –
		CDN	**4,486,704**	**4,469,923**	–	–
				5,167,229		3,974,496
Short-term notes/held-for-trading						
2009	2.39%	USD	**$ 29,600**	**$ 30,362**	$ –	$ –
				30,362		–
Total Short-term notes				**$ 5,197,591**		$ 3,974,496

BDC issues long-term borrowings in capital markets to fund its loan portfolio. Effective April 1, 2007, unstructured long-term notes are recorded at amortized cost. Structured notes have been classified as held-for-trading and are recorded at fair value with unrealized gains or losses recorded in Net interest income. There is no liquid market for these structured notes, so the fair value is calculated using theoretical values. These values are determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value. Prior to April 1, 2007, structured notes were accounted for under hedge accounting. They were discontinued from a hedge relationship on April 1, 2007.

11 – Borrowings (continued)

				2008		2007	
Maturity date	**2008 Effective rate***	2007 Effective rate*	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes/amortized cost							
2010 – 2012	**4.75%**		CDN	**$ 300,000**	**$ 300,000**	$ –	$ –
Long-term notes/held-for-trading							
2008		3.85%-4.26%	CDN	**–**	**–**	350,940	350,940
2009	**3.51%**	4.00%	USD	**43,000**	**42,950**	43,000	49,641
	3.16% - 4.26%	3.89% - 4.13%	CDN	**479,896**	**513,893**	398,311	402,545
2010	**3.34% - 3.39%**	4.04% - 4.10%	USD	**20,000**	**20,071**	40,000	46,178
	3.31% - 4.17%	3.90% - 4.09%	CDN	**177,822**	**224,342**	224,217	231,288
2011	**3.21% - 3.33%**	3.94% - 4.05%	USD	**17,000**	**17,687**	17,000	20,054
	3.16% - 3.57%	3.89% - 4.24%	CDN	**248,155**	**252,639**	351,811	340,896
2012	**3.33%**	4.04% - 4.08%	Yen	**500,000**	**5,146**	2,250,000	22,044
		4.07%	USD	**–**	**–**	10,000	11,544
	3.16% - 3.41%	3.89% - 4.08%	CDN	**181,832**	**215,400**	302,636	345,872
2013		4.08% - 4.09%	USD	**–**	**–**	16,000	18,471
	3.34% - 3.37%	4.06% - 4.07%	CDN	**15,000**	**18,053**	15,000	15,000
2014	**3.37%**	4.07% - 4.09%	Yen	**1,000,000**	**10,159**	5,100,000	49,965
	3.33% - 3.51%	4.04% - 4.11%	USD	**37,600**	**37,871**	93,200	107,595
	3.31% - 3.56%	3.96% - 4.07%	CDN	**105,890**	**110,327**	77,000	78,734
2015	**3.33% - 3.56%**	4.05% - 4.08%	Yen	**3,000,000**	**31,511**	3,000,000	29,392
	3.37% - 3.53%	4.05% - 4.09%	USD	**30,000**	**30,893**	45,000	51,950
	3.31% - 3.56%	3.98% - 4.07%	CDN	**127,255**	**119,021**	97,150	98,469
2016	**3.33% - 3.39%**	4.05% - 4.09%	Yen	**7,500,000**	**76,509**	11,000,000	107,769
	3.38%	4.11%	USD	**30,000**	**30,878**	40,000	46,178
	3.31%		CDN	**20,982**	**22,005**	–	–
2017	**3.33% - 3.39%**	4.06% - 4.10%	Yen	**3,700,000**	**36,140**	5,700,000	55,844
	3.30% - 3.38%	4.03% - 4.11%	USD	**43,000**	**43,314**	43,000	49,641
2018	**3.35% - 3.59%**	4.05% - 4.15%	Yen	**31,200,000**	**311,644**	34,200,000	335,063
2019	**3.32% - 3.61%**	4.04% - 4.12%	Yen	**24,700,000**	**242,526**	28,900,000	283,138
	3.38%	4.11%	USD	**25,456**	**26,567**	24,112	27,836
2020	**3.32% - 3.63%**	3.36% - 4.11%	Yen	**19,600,000**	**187,697**	25,400,000	248,848
2021	**3.30% - 3.60%**	4.03% - 4.09%	Yen	**14,960,000**	**144,639**	18,560,000	181,836
		4.09%	USD	**–**	**–**	34,554	39,890
2022	**3.34% - 3.63%**	4.07% - 4.11%	Yen	**2,400,000**	**23,823**	3,700,000	36,250
	3.26% - 4.31%	3.99% - 4.09%	CDN	**600,000**	**626,765**	570,500	570,500
2023	**2.86% - 3.63%**		Yen	**6,800,000**	**65,588**	–	–
					$ 3,488,058		$ 4,253,371
Total Long-term notes					**$ 3,788,058**		$ 4,253,371

* The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed rate issues. and yield to reset for floating rate issues.

11 – Borrowings (continued)

The preceding table includes $3,482,058 in 2008 ($4,248,621 in 2007) of long-term notes payable that have been the subject of interest rate, cross-currency interest rate, and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of BDC's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for extendable notes are presented based on their first option date. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. The types of notes included in the previous table are as follows.

	2008	2007
Interest-bearing notes	**$ 1,206,853**	$ 838,976
Fixed and inverse floating rate notes	**708,717**	948,508
Managed futures	**540,573**	761,910
Notes linked to equity indices	**320,493**	539,257
Notes linked to currency rates	**259,364**	311,681
Notes linked to swap rates	**120,142**	164,380
Notes extendible beyond maturity	**129,852**	128,000
Other structured notes	**502,064**	560,659
	$ 3,788,058	$ 4,253,371

Long-term notes of $1,648,278 are redeemable prior to maturity ($2,301,371 as at March 31, 2007).

As at March 31, 2008, the payment requirements and maturities of long-term notes are as follows.

2009	**$ 556,843**
2010	**344,413**
2011	**370,326**
2012	**320,546**
2013	**18,053**
2014 and later	**2,177,877**
	$ 3,788,058

BDC has an available overdraft facility of $75 million, for BDC's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2008, BDC is not in an overdraft position.

Other Liabilities 12

	2008	2007
Deferred income	**$ 332**	$ 984
Accrued benefit liability (Note 20)	**107,932**	106,710
Other	**40,884**	35,079
	$ 149,148	$ 142,773

As part of the implementation of Section 3861, *Financial Instruments – Disclosure and Presentation*, BDC reclassified amounts payable on swaps from Derivative liabilities to Other liabilities. An amount of $11,551 is included in Other liabilities in 2008, compared to $191,249 included in Derivative liabilities in 2007 comparative figures.

Share Capital and Statutory Limitations 13

SHARE CAPITAL

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) An unlimited number of common shares, having a par value of $100 each.

Outstanding				**2008**			2007
		Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares							
Class A	– Series 1	**500,000**	**$ 50,000**	**3.535%**	500,000	$ 50,000	3.865%
	– Series 2	**500,000**	**50,000**	**4.455%**	500,000	50,000	4.455%
	– Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	3.965%
	– Series 4	**400,000**	**40,000**	**4.130%**	400,000	40,000	3.970%
	– Series 5	**400,000**	**40,000**	**3.230%**	400,000	40,000	4.260%
			230,000			230,000	
Common shares		**8,084,000**	**808,400**		8,084,000	808,400	
Total Outstanding Share Capital			**$ 1,038,400**			$ 1,038,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A Preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

STATUTORY LIMITATIONS

The aggregate of borrowings and contingent liabilities of BDC in the form of guarantees related to financial services may not exceed 12 times the shareholder's equity of BDC. BDC's ratio at March 31, 2008, was 4.8:1 (4.6:1 as at March 31, 2007).

The paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2008, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2007).

Moreover, BDC has to maintain adequate equity to reflect the relative riskiness of its assets. In particular, BDC is required to maintain minimum capital as a percentage of its net portfolio assets of at least 10% for term loans, 25% for quasi-equity loans (including subordinate financing) and 100% for venture capital investments. As shown below, BDC operates in accordance with its capital adequacy guidelines.

	2008	2007
Minimum capital required	**$ 1,544,570**	$ 1,459,980
Actual capital*	**$ 1,870,145**	$ 1,807,718

* The actual capital excludes AOCI of $2,828 in 2008.

Information Included in the Consolidated Statements of Income 14

	2008	2007
Interest income		
Financing	**$ 846,685**	$ 778,994
Subordinate financing	**18,446**	17,876
Venture capital	**6,901**	7,014
	$ 872,032	$ 803,884
Interest expense		
Interest on notes	**$ 198,607**	$ 180,397
Interest on swaps	**169,300**	152,329
Net unrealized losses on financial instruments	**7,445**	8
Other	**2,235**	1,902
	$ 377,587	$ 334,636
Amortization of fixed assets	**$ 13,169**	$ 13,162

Interest income from BDC Financing includes unrealized gains on financial instruments of $2,143 ($638 in 2007). Net gains on foreign exchange contracts from BDC Venture Capital include an unrealized loss of $2,902 compared to an unrealized gain of $1,402 in 2007.

Operating and Administrative Expenses 15

	2008				2007			
	Financing	**Subordinate Financing**	**Venture Capital**	**Consulting**	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	**$ 156,231**	**$ 10,511**	**$ 8,945**	**$ 14,964**	$ 149,164	$ 10,696	$ 9,894	$ 13,915
Premises and equipment	**33,075**	**687**	**1,482**	**987**	32,422	590	1,474	946
Other expenses	**55,546**	**1,241**	**2,364**	**13,372**	59,536	1,049	3,332	12,988
	$ 244,852	**$ 12,439**	**$ 12,791**	**$ 29,323**	$ 241,122	$ 12,335	$ 14,700	$ 27,849

Fair Value of Financial Instruments 16

The amounts set out below represent the fair values of financial instruments held or issued by BDC, using the valuation methods and assumptions referred to below. The estimated fair values represent approximate amounts at which the instruments could be exchanged between knowledgeable, willing parties in an arm's-length transaction. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques that are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

			2008			2007
	Fair value	**Carrying value**	**Fair value over (under) carrying value**	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**$ 725,376**	**$ 725,376**	**$ –**	$ 764,803	$ 764,803	$ –
Securities	**91,210**	**91,210**	**–**	163,956	164,266	(310)
Loans, net of allowance for credit losses	**9,488,625**	**9,481,449**	**7,176**	8,627,490	8,622,646	4,844
Subordinate financing loans and investments	**156,158**	**156,158**	**–**	148,290	148,290	–
Venture capital investments	**475,985**	**475,985**	**–**	505,118	505,118	–
Derivative assets	**206,882**	**206,882**	**–**	411,883	442,368	(30,485)
Other assets	**141,543**	**141,543**	**–**	21,734	21,734	–
	$ 11,285,779	**$ 11,278,603**	**$ 7,176**	$ 10,643,274	$ 10,669,225	$ (25,951)
Liabilities						
Accounts payable and accrued liabilities	**$ 65,503**	**$ 65,503**	**$ –**	$ 67,013	$ 67,013	$ –
Accrued interest on borrowings	**34,144**	**34,144**	**–**	28,408	28,408	–
Short-term notes	**5,197,591**	**5,197,591**	**–**	3,974,496	3,974,496	–
Long-term notes	**3,797,143**	**3,788,058**	**9,085**	4,304,186	4,253,371	50,815
Derivative liabilities	**321,805**	**321,805**	**–**	449,739	530,302	(80,563)
Other liabilities	**31,329**	**31,329**	**–**	24,235	24,235	–
	$ 9,447,515	**$ 9,438,430**	**$ 9,085**	$ 8,848,077	$ 8,877,825	$ (29,748)
Total			**$ (1,909)**			$ 3,797

Fair values are based on a range of valuation methods and assumptions, as follows.

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value, as the items are short term in nature:

- Cash;
- Other assets and liabilities;
- Accounts payable and accrued liabilities;
- Accrued interest on borrowings; and
- Short-term notes.

Cash equivalents – The basis used to estimate the fair value of cash equivalents is provided in Note 4 to the Consolidated Financial Statements.

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the Consolidated Financial Statements.

Loans – For performing floating rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value, in accordance with the valuation methods described in Note 2 under "Allowance for credit losses".

Subordinate financing and Venture capital investments – Note 2 describes the fair value methods used by BDC.

Long-term notes – The basis used to estimate the fair value of structured long-term notes is provided in Note 11 to the Consolidated Financial Statements. Fair value of unstructured long-term notes is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar notes.

Derivative financial instruments – The basis used to estimate the fair value of derivative financial instruments is provided in Note 17 to the Consolidated Financial Statements.

Derivative Financial Instruments 17

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equity investments, indices, commodity prices or other financial measures.

TYPES OF DERIVATIVES

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

- *Interest rate swaps,* which involve exchange of fixed and floating rate interest payments;
- *Cross-currency interest rate swaps* which involve the exchange of both interest and notional amounts in two different currencies;
- *Equity-linked swaps*, where one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates;
- *Credit default swaps,* where one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or a change in another third party's credit rating; and
- *Commodity swaps,* where one counterparty exchanges fixed or floating rate payments based on the notional value of a commodity.

The main risk associated with these instruments is related to movements in interest rates, foreign exchange, equity and commodity prices, and exposure to counterparty credit risk.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

HEDGING RELATIONSHIP

In compliance with *BDC's Treasury Risk Policy* and the *Treasury Board Guidelines*, BDC transacts in derivative financial instruments to hedge its foreign exchange and interest rate risk. Effective April 1, 2007, BDC has discontinued the hedging relationship of all of the structured swaps and certain interest rate swaps that did not meet the new requirements of Section 3865, *Hedges*.

Foreign Exchange Rate Risk

BDC manages the foreign exchange rate risk of its short-term borrowings through forward contracts. In addition, BDC enters into cross-currency swaps to hedge its long-term borrowings against foreign exchange rate risk. For short-term borrowings, the foreign exchange forward agreements are classified as cash flow hedging instruments and are marked-to-market with changes in fair value in OCI.

The long-term borrowing cross-currency swaps are classified as held-for-trading and changes in fair value are recorded in Net interest income.

Interest Rate Risk

In fiscal 2008, BDC entered into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been classified as cash flow hedging instruments. The effective portion of the hedge is recorded in OCI and the ineffective portion of the hedge is recorded in Net interest income.

17 – Derivative Financial Instruments (continued)

FINANCIAL INSTRUMENTS NOT DESIGNATED IN A HEDGING RELATIONSHIP

Interest Rate Risk

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate, cross-currency, equity-linked and credit default swaps. These instruments have been classified as held-for-trading. Prior to April 1, 2007, these transactions were designated as hedge accounting and accounted for on an accrual basis. Effective April 1, 2007, the changes in fair value of these transactions are recorded in Net interest income.

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as presented by gross assets and gross liabilities values.

			2008			2007
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	**$ 415**	**$ 4,066**	**$ (3,651)**	$ 10,311	$ 13,049	$ (2,738)
Equity-linked swap contracts	**–**	**–**	**–**	385,667	21,847	363,820
Cross-currency interest rate swap contracts	**5,665**	**423**	**5,242**	11,467	399,808	(388,341)
Currency forward contracts	**20,514**	**85**	**20,429**	4,409	14,948	(10,539)
Total fair value – Hedging	**$ 26,594**	**$ 4,574**	**$ 22,020**	$ 411,854	$ 449,652	$ (37,798)
Held-for-trading[(1)]						
Interest rate swap contracts	**$ 34,583**	**$ 9,905**	**$ 24,678**	$ 3	$ –	$ 3
Equity-linked swap contracts	**137,741**	**25,539**	**112,202**	–	–	–
Forward rate agreements	**–**	**–**	**–**	26	87	(61)
Cross-currency interest rate swap contracts	**7,953**	**279,389**	**(271,436)**	–	–	–
Currency forward contracts	**11**	**2,398**	**(2,387)**	–	–	–
Total fair value – Held-for-trading	**$ 180,288**	**$ 317,231**	**$(136,943)**	$ 29	$ 87	$ (58)
Total fair value	**$ 206,882**	**$ 321,805**	**$ (114,923)**	$ 411,883	$ 449,739	$ (37,856)
Total carrying value	**$ 206,882**	**$ 321,805**	**$ (114,923)**	$ 442,368	$ 530,302	$ (87,934)

(1) 2007 figures represent the ineffective portion of the derivatives.

The fair value is an estimated price at a point in time that would be agreed upon in the marketplace, subject to the conditions that the prospective buyers and sellers are reasonably knowledgeable about the asset, and they are behaving in their own best interests and are free of undue pressure to trade.

All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value. The valuation takes into account the market factors of the underlying note.

17 – Derivative Financial Instruments (continued)

The following table summarizes the notional amount, by term to maturity or repricing date, and replacement cost of derivative financial instruments.

	Term to maturity or repricing								2008		2007	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
HEDGING												
Interest Rate Contracts												
$CDN payable-fixed	$ –	–	$ –	–	$ 100,000	4.50	$ –	–	**$ 100,000**	**$ –**	$ 186,504	$ 243
$CDN receivable-fixed	–	–	125,000	3.40	–	–	–	–	**125,000**	**415**	991,401	10,060
$US receivable-fixed	–	–	–	–	–	–	–	–	**–**	**–**	–	–
Basis swap	–	–	–	–	–	–	–	–	**–**	**–**	130,000	–
Other swap contracts	–	–	–	–	–	–	–	–	**–**	**–**	147,291	8
Equity-Linked Swap Contracts	–	–	–	–	–	–	–	–	**–**	**–**	2,163,243	385,667
	–		125,000		100,000		–		**225,000**	**415**	3,618,439	395,978
Cross-Currency Interest Rate Swap Contracts	21,500	n.a.	49,760	n.a.	–	–	–	–	**71,260**	**5,665**	2,364,066	11,467
Total	21,500		174,760		100,000		–		**296,260**	**6,080**	5,982,505	407,445
Currency Forward Contracts	680,284	n.a.	–	–	–	–	–	–	**680,284**	**20,514**	1,403,975	4,409
TOTAL HEDGING	$ 701,784		$ 174,760		$ 100,000		$ –	–	**$ 976,544**	**$ 26,594**	$ 7,386,480	$ 411,854
HELD-FOR-TRADING(1)												
Interest rate contracts												
$CDN payable-fixed	$ 113,027	4.20	$ 100,000	4.18	$ –	–	$ 170,000	4.23	**$ 383,027**	**$ –**	$ –	$ –
$CDN receivable-fixed	323,209	3.93	50,000	3.79	–	–	671,477	4.51	**1,044,686**	**33,125**	–	–
Basis swap	3,507,000	3.67	–	–	–	–	–	–	**3,507,000**	**1,449**	17,500	3
Other swap contracts	46,500	n.a.	2,431	n.a.	–	–	29,732	n.a.	**78,663**	**9**	–	–
Equity-Linked Swap Contracts	252,637	n.a.	710,052	n.a.	266,236	n.a.	182,650	n.a.	**1,411,575**	**137,741**	–	–
	4,242,373		862,483		266,236		1,053,859		**6,424,951**	**172,325**	17,500	3
Cross-currency interest rate swap contracts	67,080	n.a.	51,596	n.a.	4,757	n.a.	1,617,631	n.a.	**1,741,064**	**7,953**	–	–
Total	4,309,453		914,079		270,993		2,671,490		**8,166,015**	**180,277**	17,500	3
Currency Forward Contracts	136,306	n.a.	–	–	–	–	–	–	**136,306**	**11**	–	–
Forward Rate Agreements	–	–	–	–	–	–	–	–	**–**	**–**	666,000	26
TOTAL HELD-FOR-TRADING	$ 4,445,759		$ 914,079		$ 270,993		$ 2,671,490		**$ 8,302,321**	**$ 180,288**	$ 683,500	$ 29
TOTAL	$ 5,147,543		$ 1,088,839		$ 370,993		$ 2,671,490		**$ 9,278,865**	**$ 206,882**	$ 8,069,980	$ 411,883

n.a. – Not applicable or weighted rates are not significant.
(1) 2007 figures represent the ineffective portion of the derivatives.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts that are in an unrealized gain position at Balance Sheet date.

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivatives contracts.

17 – Derivative Financial Instruments (continued)

Credit risk

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the gross asset values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and BDC believes it does not have any significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. BDC's overall exposure to credit risk on derivative instruments can change substantially within a short period, since it is affected by each transaction subject to the arrangement.

Counterparty credit risk exposure	**Counterparty ratings**		
	AA- to AA+	**A to A+**	**Total**
Gross positive replacement cost	**$ 94,889**	**$ 111,993**	**$ 206,882**
Impact of master netting agreements	**(66,804)**	**(56,963)**	**(123,767)**
Replacement cost (after master netting agreements) – 2008	**$ 28,085**	**$ 55,030**	**$ 83,115**
Replacement cost (after master netting agreements) – 2007	$ 180,520	$ 56,378	$ 236,898
Number of counterparties			
March 31, 2008	**10**	**3**	**13**
March 31, 2007	5	2	7

Interest Rate Sensitivity 18

Interest rate risk occurs when a liability is settled or repriced at a time in the future that does not offset the asset that it is funding. BDC uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

The following table summarizes BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity date.

CANADIAN DOLLAR TRANSACTIONS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Assets								
Cash and cash equivalents	$ (18,516)	$ 710,432	$ –	$ –	$ –	$ –	$ –	$ 691,916
Effective yield	3.25%	3.60%						
Securities	–	25,022	–	–	–	–	–	25,022
Effective yield		4.33%						
Loans, net of allowance for credit losses	6,629,481	171,698	352,728	1,811,558	732,467	293,447	(531,500)	9,459,879
Effective yield	7.79%	7.95%	8.22%	7.80%	7.23%			
Subordinate financing loans and investments	9,343	1,575	9,609	116,586	5,938	21,199	(8,784)	155,466
Effective yield(1)	12.58%	11.67%	12.16%	12.35%	12.90%			
Venture capital investments	–	–	–	–	–	317,582	–	317,582
Derivative assets	–	–	–	–	–	172,489	–	172,489
Other	–	–	–	–	–	286,506	–	286,506
	$ 6,620,308	$ 908,727	$ 362,337	$ 1,928,144	$ 738,405	$ 1,091,223	$ (540,284)	$ 11,108,860
Liabilities and Shareholder's Equity								
Short-term notes	$ –	$ 4,232,892	$ 237,031	$ –	$ –	$ –	$ –	$ 4,469,923
Effective yield		3.24%	3.16%					
Long-term notes	–	6,000	155,865	329,998	800,825	1,109,757	–	2,402,445
Effective yield		3.51%	3.39%	4.63%	3.65%			
Derivative liabilities	–	–	–	–	–	37,190	–	37,190
Other	–	–	–	–	–	248,795	–	248,795
Shareholder's equity	–	–	–	–	–	1,867,317	–	1,867,317
	$ –	$ 4,238,892	$ 392,896	$ 329,998	$ 800,825	$ 3,263,059	$ –	$ 9,025,670
Total Balance Sheet gap 2008	**$ 6,620,308**	**$ (3,330,165)**	**$ (30,559)**	**$ 1,598,146**	**$ (62,420)**	**$ (2,171,836)**	**$ (540,284)**	**$ 2,083,190**
Total Balance Sheet gap 2007	$ 6,390,478	$ (1,214,882)	$ (283,229)	$ 1,375,072	$ 99,095	$ (2,862,994)	$ (507,181)	$ 2,996,359
Total Derivatives Position	**$ –**	**$ (1,816,832)**	**$ 216,209**	**$ 5,000**	**$ 599,477**	**$ 996,146**	**$ –**	**$ –**
Total Gap Position 2008	**$ 6,620,308**	**$ (5,146,997)**	**$ 185,650**	**$ 1,603,146**	**$ 537,057**	**$ (1,175,690)**	**$ (540,284)**	**$ 2,083,190**
Total Gap position 2007	$ 6,260,478	$ (3,468,087)	$ (399,250)	$ 1,629,878	$ 653,604	$ (1,173,083)	$ (507,181)	$ 2,996,359

(1) Excludes non-interest return.

18 – Interest Rate Sensitivity (continued)

FOREIGN CURRENCY TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Assets								
Cash and cash equivalents	**$ 3,148**	**$ 30,312**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 33,460**
Effective yield	**1.50%**	**2.68%**						
Securities	**–**	**66,188**	**–**	**–**	**–**	**–**	**–**	**66,188**
Effective yield		**4.82%**						
Loans, net of allowance for credit losses	**22,735**	**–**	**–**	**–**	**–**	**–**	**(1,165)**	**21,570**
Effective yield	**5.90%**							
Subordinate financing loans and investments	**692**	**–**	**–**	**–**	**–**	**–**	**–**	**692**
Effective yield(1)	**7.20%**							
Venture capital investments	**–**	**–**	**–**	**–**	**–**	**158,403**	**–**	**158,403**
Derivative assets	**–**	**–**	**–**	**–**	**–**	**34,393**	**–**	**34,393**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	$ 26,575	**$ 96,500**	**$ –**	**$ –**	**$ –**	**$ 192,796**	**$ (1,165)**	**$ 314,706**
Liabilities and Shareholder's Equity								
Short-term notes	**$ –**	**$ 727,668**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 727,668**
Effective yield		**3.38%**						
Long-term notes	**–**	**394,613**	**808,205**	**10,300**	**104,123**	**68,372**	**–**	**1,385,613**
Effective yield		**3.39%**	**3.40%**	**3.33%**	**3.39%**			
Derivative liabilities	**–**	**–**	**–**	**–**	**–**	**284,615**	**–**	**284,615**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	$ –	**$ 1,122,281**	**$ 808,205**	**$ 10,300**	**$ 104,123**	**$ 352,987**	**$ –**	**$ 2,397,896**
Total Balance Sheet gap 2008	**$ 26,575**	**$ (1,025,781)**	**$ (808,205)**	**$ (10,300)**	**$ (104,123)**	**$ (160,191)**	**$ (1,165)**	**$ (2,083,190)**
Total Balance Sheet gap 2007	$ –	$ (899,169)	$ (278,062)	$ (70,531)	$ (1,669,667)	$ (78,930)	$ –	$ (2,996,359)
Total Derivatives position	**$ –**	**$ (1,187,272)**	**$ 962,057**	**$ 12,108**	**$ 108,969**	**$ 104,138**	**$ –**	**$ –**
Total Gap position 2008	**$ 26,575**	**$ (2,213,053)**	**$ 153,852**	**$ 1,808**	**$ 4,846**	**$ (56,053)**	**$ (1,165)**	**$ (2,083,190)**
Total Gap position 2007	$ –	$ (2,639,067)	$ (357,292)	$ –	$ –	$ –	$ –	$ (2,996,359)

(1) Excludes non-interest return.

TOTAL TRANSACTIONS EXPRESSED IN CANADIAN DOLLARS

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	TOTAL
Total Gap position for Canadian dollar transactions	**$6,620,308**	**$(5,146,997)**	**$ 185,650**	**$ 1,603,146**	**$ 537,057**	**$(1,175,690)**	**$ (540,284)**	**$ 2,083,190**
Total Gap position for foreign currency transactions	**26,575**	**(2,213,053)**	**153,852**	**1,808**	**4,846**	**(56,053)**	**(1,165)**	**(2,083,190)**
Total Gap position 2008	**$6,646,883**	**$(7,360,050)**	**$ 339,502**	**$1,604,954**	**$ 541,903**	**$(1,231,743)**	**$ (541,449)**	**$ –**
Total Gap position 2007	$ 6,260,478	$ (6,107,154)	$ (756,542)	$ 1,629,878	$ 653,604	$ (1,173,083)	$ (507,181)	$ –

Guarantees, Contingent Liabilities and Commitments 19

GUARANTEES

The various guarantees and indemnifications that BDC provides to third parties are presented below.

Derivative Instruments

As part of its financing operations, BDC has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $2,170 ($12,106 in 2007) and is included in the Consolidated Balance Sheet under Other liabilities. Last year's figure is included in Derivative liabilities.

Indemnifications

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no predetermined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities.

CONTINGENT LIABILITIES

In 2004, representatives of BDC pensioners launched a class action claiming damages from BDC for allegedly breaching its fiduciary duty. BDC has a meritorious response to these claims.

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments are $969,190 at March 31, 2008. These commitments are for an average period of two months ($125,369 fixed rate; $843,821 floating rate). The effective interest rates on these commitments vary from 5.70% to 17.25%. These commitments include BDC's share of undisbursed amounts of authorized joint venture financings, which is approximately $17,499 at March 31, 2008. The undisbursed amounts of authorized venture capital investments were $147,672 at March 31, 2008.

Future minimum lease commitments under operating leases related to the rental of BDC premises are approximately as follows.

2009	**$ 22,686**
2010	**20,887**
2011	**17,204**
2012	**14,342**
2013	**10,261**
2014 and later	**60,822**
	$ 146,202

Pension and Other Employee Future Benefits 20

BDC offers defined benefit plans that provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental and life insurance coverage.

During fiscal 2007, BDC announced changes to the post-retirement benefit program that will be effective for eligible employees who retire on or after January 1, 2012. The new post-retirement benefits program provides for different provisions for health, dental and life insurance coverage. The gain of $9.7 million generated by this modification was first used to eliminate the unamortized transitional obligation in effect at July 1, 2006. The excess of the gain is being amortized over the expected average remaining service period up to the full eligibility date of the active members, which was estimated as five years from July 1, 2006.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements, BDC began funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2006, for the registered pension plan and December 31, 2007, for the supplemental pension plans. The next funding valuations will be performed at December 31, 2007, for the registered pension plan and December 31, 2008, for the supplemental pension plans. Other benefit plans are unfunded.

For 2008, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans, were $34 million ($42 million in 2007).

A full discussion on how BDC's pension liability and expense are determined can be found in Note 2.

The following tables present, in aggregate, information on a calendar-year basis concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007	**2008**	2007
Change in accrued benefit obligation						
Balance at beginning of year	**$ 582,960**	$ 549,087	**$ 55,193**	$ 47,300	**$ 113,423**	$ 121,420
Current service cost	**18,299**	18,469	**949**	886	**6,800**	4,711
Interest cost on benefit obligation	**31,099**	29,279	**2,897**	2,484	**6,043**	6,049
Employee contributions	**6,593**	3,842	**–**	–	**–**	–
Benefits paid	**(24,375)**	(23,548)	**(1,889)**	(1,738)	**(7,003)**	(5,395)
Past service gain	**–**	–	**–**	–	**–**	(9,726)
Actuarial loss (gain)	**(32,730)**	5,831	**839**	6,261	**4,464**	(3,636)
Balance at end of year	**581,846**	582,960	**57,989**	55,193	**123,727**	113,423
Change in fair value of plan assets						
Balance at beginning of year	**$ 589,914**	$ 531,714	**$ 15,187**	$ 2,744	**$ –**	$ –
Employee contributions	**6,593**	3,842	**–**	–	**–**	–
Employer contributions	**19,910**	25,980	**9,317**	13,985	**–**	–
Actual return (loss) on plan assets during the year	**14,807**	51,926	**(344)**	196	**–**	–
Benefits paid	**(24,375)**	(23,548)	**(1,889)**	(1,738)	**–**	–
Balance at end of year	**606,849**	589,914	**22,271**	15,187	**–**	–
Surplus (deficit) at end of year	**$ 25,003**	$ 6,954	**$ (35,718)**	$ (40,006)	**$ (123,727)**	$ (113,423)
Employer contributions after measurement date	**3,108**	5,708	**10,114**	9,317	**108**	133
Unamortized transitional obligation (asset)	**(6,721)**	(20,162)	**449**	1,349	**–**	–
Unamortized past service gain	**–**	–	**–**	–	**(5,456)**	(7,135)
Unamortized net actuarial loss	**94,454**	108,172	**19,247**	19,104	**27,051**	23,951
Accrued benefit asset (liability) at end of year[1]	**$ 115,844**	$ 100,672	**$ (5,908)**	$ (10,236)	**$ (102,024)**	$ (96,474)

(1) Net amount recognized in the Consolidated Balance Sheet as "Other assets" or "Other liabilities", as appropriate.

20 – Pension and Other Employee Future Benefits (continued)

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded.

	Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007
Fair value of plan assets	**$ 22,271**	$ 15,187	**$ –**	$ –
Accrued benefit obligation	**$ 57,989**	$ 55,193	**$ 123,727**	$ 113,423

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 and are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007	**2008**	2007
Defined benefit costs						
Current service cost	**$ 18,299**	$ 18,469	**$ 949**	$ 886	**$ 6,800**	$ 4,711
Interest cost on benefit obligation	**31,099**	29,279	**2,897**	2,484	**6,043**	6,049
Actual (return) loss on plan assets	**(14,807)**	(51,926)	**344**	(196)	**–**	–
Past service gain	**–**	–	**–**	–	**–**	(9,726)
Actuarial (gain) loss on benefit obligation	**(32,730)**	5,831	**839**	6,261	**4,464**	(3,636)
Costs arising in the period	**1,861**	1,653	**5,029**	9,435	**17,307**	(2,602)
Difference between costs arising in the period and costs recognized in the period in respect of:						
Return (loss) on plan assets	**(25,084)**	14,486	**(1,061)**	(237)	**–**	–
Actuarial (gain) loss	**38,802**	2,769	**918**	(5,068)	**(3,100)**	4,958
Difference between amortization of past service (gain) and past service cost	**–**	–	**–**	–	**(1,679)**	7,135
Transitional obligation (asset)	**(13,441)**	(13,441)	**900**	(33)	**–**	1,381
Defined benefit cost for the year ended March 31	**$ 2,138**	$ 5,467	**$ 5,786**	$ 4,097	**$ 12,528**	$ 10,872

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans was as follows.

Investment type	**2008**		2007	
Cash and short-term investments	**$ 12,285**	**2.0%**	$ 5,345	0.9%
Bonds	**241,599**	**38.4%**	218,318	36.1%
Common and preferred shares	**362,937**	**57.6%**	373,128	61.6%
Other assets less liabilities	**12,299**	**2.0%**	8,310	1.4%
Net assets available for benefits	**$ 629,120**	**100.0%**	$ 605,101	100.0%

20 – Pension and Other Employee Future Benefits (continued)

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted averages) are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2008	2007	**2008**	2007	**2008**	2007
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Discount rate at end of year	**5.50%**	5.25%	**5.50%**	5.25%	**5.25% – 5.50%**	5.25%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Expected long-term rate of return on plan assets(1)	**6.75%**	7.00%	**3.38%**	3.50%	**–**	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.50% (in 2007, 2.75%) plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

(1) The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

For measurement purposes, cost trends were assumed to be:

Medical costs related to drugs

- 10% in 2008, dropping by 0.67% each year to 6% in 2014 and subsequent years (10% in 2007, dropping by 0.67% each year to 6% in 2013 and subsequent years);

Other medical costs

- 5% in 2008, dropping by 1% each year to 3% in 2010 and subsequent years (5% in 2007, dropping by 1% each year to 3% in 2009 and subsequent years); and

Dental costs

- 6% in 2008, dropping by 1% each year to 4% in 2010 and subsequent years (6% in 2007, dropping by 1% each year to 4% in 2009 and subsequent years).

20 – Pension and Other Employee Future Benefits (continued)

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefits cost is summarized in the table below.

	Registered pension plan	Supplemental pension plans	Other plans
Increase (decrease) in			
Expected rate of return on assets			
Impact of: 1% increase	**(5,910)**	**(106)**	**–**
1% decrease	**5,910**	**106**	**–**
Discount rate			
Impact of: 1% increase	**(10,739)**	**(795)**	**(697)**
1% decrease	**17,822**	**962**	**976**
Rate of compensation increase			
Impact of: 0.25% increase	**1,101**	**25**	**54**
0.25% decrease	**(1,067)**	**(23)**	**(52)**
Assumed overall health care cost trend rates			
Impact of: 1% increase	**–**	**–**	**1,803**
1% decrease	**–**	**–**	**(1,375)**
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period			
Assumed overall health care cost trend rates			
Impact of: 1% increase	**–**	**–**	**16,104**
1% decrease	**–**	**–**	**(12,820)**
on the post-retirement benefits other than pension accrued benefit obligation at March 31, 2008			

Related Party Transactions 21

As at March 31, 2008, BDC has $1 billion outstanding in short-term borrowings issued by Her Majesty in Right of Canada acting through the Minister of Finance (Canada), in accordance with the *Financial Administration Act* and the BDC Act, and is compliant with (i) BDC's borrowing plan, which has been approved by the Minister of Finance; and (ii) the *Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to the Business Development Bank of Canada,* dated February 14, 2008. Effective April 21, 2008, BDC will borrow exclusively through the Department of Finance Canada.

BDC is related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

Comparative Financial Data 22

Certain comparative figures have been reclassified to conform to the presentation adopted in 2008.

CORPORATE GOVERNANCE

THE BOARD REPORTS ON CORPORATE GOVERNANCE

OUR RESPONSIBILITY IS *STEWARDSHIP*.

We ensure that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an effective, responsible and efficient way.

Except for the president and CEO, all members of the Board are independent of management. None, except the president, are BDC employees. None are public servants. All have first-hand knowledge of finance, business and entrepreneurship. Together, we have the balanced mix of skills and experience needed for our stewardship role.

Our central challenge is to manage the constant tension between BDC's mandate to support small business entrepreneurs – an inherently high-risk endeavour – and its obligation to be commercially viable.

PARLIAMENT: DIRECTION AND OVERSIGHT

Our principal guides are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act* and the *Official Languages Act*, as well as regulations.

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year. At five-year intervals, the Auditor General does a special examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. In January 2008, our most recent special examination began.

Every year, Parliament receives a summary of BDC's corporate plan and its annual report.

GOVERNMENT AND INDUSTRY

We consult Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. We also look to private sector organizations for the best practices to emulate.

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 is part of the government's desire to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to do the following:

- clarify the relationship between ministers and Crown corporations;
- clarify the accountability regime of Crown corporations;
- make more transparent the appointment process for chairs, CEOs and directors;
- align the governance of Crown corporations with reforms in the private sector;

- strengthen the audit regimes of Crown corporations; and
- make more transparent the activities and operations of Crown corporations.

BDC meets or exceeds all of these measures.

Within the parameters set by Parliament and the government, our key tasks are to:
- approve BDC's strategic direction and corporate plan, and monitor progress;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- establish compensation policies, and review and approve management's succession plan (a task that includes approving the appointment of senior managers and evaluating their performance);
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans, and establish its fund policies and practices; and
- ensure the highest standards of corporate governance.

In fiscal 2008, we sought a new chair. We defined the role, identified the experience and skills required, and hired an executive search firm to find candidates. In August 2007, the government appointed John A. MacNaughton to the chair's role for four years. Mr. MacNaughton brings an impressive ensemble of financial sector skills and experience to BDC. Collectively, we have the range and depth of skills and expertise that stewardship of BDC requires.

In fiscal 2008, BDC made continued progress on its Internal Control Certification Project, the goal of which is to enhance controls to improve the quality of information reported in BDC's financial statements and related disclosures. The initiative, which is proceeding on schedule and will be completed at the end of fiscal 2009, puts BDC in a leadership position among Crown corporations.

We held BDC's first annual public meeting in Winnipeg in September 2007.

We have a Board Code of Conduct that incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We disclose possible conflicts of interest, if any, through a declaration of conflict of interest.

We work very closely with senior managers but we also regularly meet in camera, without their presence.

Most of the work that comes before us is initially examined by one of our five committees. We codify each committee's mandate in written terms of reference and make them available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect members' strengths.

All committees are independent of management, with one exception: President Jean-René Halde is a member of the Credit/Investment and Risk Committee, which authorizes large transactions within certain limits. Members have appropriately high levels of financial literacy. In fiscal 2008 new members of the Board, following the enhanced orientation and continuous training policy, attended detailed briefings on many of BDC's specialized activities.

If a member of Parliament, senator or director exerts undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this to management, which in turn informs the Board of Directors.

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental values: ethics, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

We keep current on best practices and review the code annually to improve our internal governance. The code includes the policy on personal trading for employees and the policy on disclosure of wrongdoing in the workplace.

OVERVIEW OF BDC BOARD COMMITTEES

For complete board committee terms of reference, please visit www.bdc.ca.

The following table outlines committee membership and meetings, and a sample of important issues in fiscal 2008.

Committee	Number of meetings	Members (March 31, 2008)	Sample of issues
Audit Committee	6	Chair: Stan Bracken-Horrocks Christiane Bergevin Eric Boyko Terry B. Grieve John Hyshka Thomas R. Spencer	Reviewed quarterly and yearly audited financial statements, including the annual report and management's discussion and analysis Oversaw external auditors' independence, annual plan and report Oversaw the commencement of special examination planning Oversaw the internal audit team's annual plan and reports Reviewed the disclosure policy Started raising awareness of international financial reporting standards Reviewed quarterly reports on the implementation of the internal control certification system
Credit/ Investment and Risk Committee	35	Chair: Terry B. Grieve Christiane Bergevin Stan Bracken-Horrocks Jean-René Halde	Reviewed limits in delegation of authorities Reviewed and approved 46 financing and venture capital investments Each quarter, reviewed performance and trends in the portfolios and discussed action plans, a task that included identifying and monitoring principal risks Reviewed insurance coverage Did comprehensive operational risk assessments by business line (Financing and Venture Capital) Benchmarked ERM policy against policies of other financial institutions
Governance and Nominating Committee	6	Chair: John A. MacNaughton Cynthia Bertolin Stan Bracken-Horrocks Andrina Lever Jean Martel Kelvin Ng	Led the process to recruit a new chair Identified, reviewed and approved board skills and competencies Led the search for five new directors

Committee	Number of meetings	Members (March 31, 2008)	Sample of issues
Human Resources Committee	5	Chair: Terry B. Grieve Cindy Chan Andrina Lever Kelvin Ng Rick Perkins	Reviewed the human resources strategic plan and related leadership development initiatives Reviewed BDC's succession plan Reviewed the venture capital incentive program Reviewed and recommended approval of payments under compensation programs, based on performance measures and objectives established for fiscal 2007 Reviewed the performance assessments of the senior management team and approved related compensation payments Recommended and reviewed the performance assessment for the president and chief executive officer, based on performance objectives established for fiscal 2007
Pension Funds Committee	3	Chair: Christiane Bergevin Cynthia Bertolin Cindy Chan John Hyshka Jean Martel Rick Perkins Observer: Frank Watters	Reviewed and approved BDC's investment policy Reviewed managers' performance Approved new investment managers

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

Directors	Board meetings	Audit	Credit/Investment and Risk	Governance and Nominating	Human Resources	Pension Fund	Total meetings
Trevor Adey[(1)]	0/3	0/2			0/2		0/7
Christiane Bergevin	9/10	3/6	24/35			3/3	39/54
Cynthia Bertolin[(2)]	7/10			5/6		2/3	14/19
Eric Boyko[(3)]	5/5	3/3					8/8
Stan Bracken-Horrocks	9/10	6/6	34/35	6/6			55/57
Cindy Chan	9/10				5/5	3/3	17/18
Léandre Cormier[(4)]	5/5	3/3	11/15		3/3		22/26
Terry B. Grieve	10/10	6/6	35/35		5/5		56/56
John Hyshka	9/10	6/6				2/3	17/19
Leo Ledohowski[(5)]	7/9		27/31		4/5		38/45
Andrina Lever[(6)]	9/10			6/6	5/5		20/21
John A. MacNaughton[(7)]	4/5	*	*	3/3	*	*	7/8*
Jean Martel	8/10			5/6		2/3	15/19
Kelvin Ng[(8)]	8/10			3/6	3/5		14/21
Valerie Payn[(9)]	8/9			5/6	4/5		17/20
Rick Perkins[(10)]	1/1						1/1
Thomas R. Spencer[(11)]	1/1		1/1				2/2
Jean-René Halde	10/10		32/35				42/45

* Mr. MacNaughton, as chairman, attends Audit, Credit/Investment and Risk, Human Resources and Pension Fund committee meetings in an *ex officio* capacity.

(1) Left July 15, 2007
(2) Left April 21, 2008
(3) Started August 29, 2007
(4) Left August 29, 2007
(5) Left March 7, 2008
(6) Left April 11, 2008
(7) Started August 1, 2007
(8) Left April 21, 2007
(9) Left March 24, 2008
(10) Started March 24, 2008
(11) Started January 29, 2008

Directors' Compensation

	Annual retainer (paid on a pro-rata, quarterly basis)	Per diem (including day of travel)
Chairperson	$12,400	$485
Chairperson of a committee	$ 1,500	$485
Director	$ 6,200	$485

If the chairperson of the Board also chairs a committee, he does not receive the extra $1,500 annual retainer.

BOARD OF DIRECTORS

at March 31, 2008

CHRISTIANE BERGEVIN
President
SNC-Lavalin Capital Inc.
Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a graduate of both McGill University and the Wharton School of Business. President of SNC-Lavalin Capital Inc. since 2001, she is recognized for her leadership in the field of finance in Canada and abroad. Over the past 20 years, she has been involved in structuring major financings for projects, acquisitions and partnerships in Canada as well as overseas. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

CYNTHIA BERTOLIN
President and Owner
Sunrope Consulting Services Ltd.
Edmonton, Alberta

Cynthia Bertolin, who joined the BDC Board of Directors in March 2002, is a consulting barrister to Aboriginal peoples, industry and governments on Aboriginal rights, policy and business development issues. Ms. Bertolin is a national jurist for the Progressive Aboriginal Relations Program at the Canadian Council for Aboriginal Business. She has served as vice chair of the National Aboriginal Economic Development Board and was the chairperson of Apeetogosan Métis Development Inc., an Aboriginal financial institution.

ERIC BOYKO
President
Stingray Digital Inc.
Montréal, Quebec

Eric Boyko joined the BDC Board of Directors in August 2007. He is the co-founder and president of Stingray Digital Inc., an international company dedicated to digital media. Previously, he founded and was president of eFundraising.com Corporation. Winner of the Top 40 Under 40 prize for 2006, he is a board member of the Montreal Development Program, the Young Presidents' Organization and the Montréal Economic Institute. Mr. Boyko is a graduate of McGill University. He has a specialization in accounting and became a certified general accountant in 1997.

BOARD OF DIRECTORS (continued)

at March 31, 2008

STAN BRACKEN-HORROCKS
President
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC Board of Directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is past president of the Institute of Chartered Accountants. He has served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

CINDY CHAN
CEO
InfoSpec Systems Inc.
Richmond, British Columbia

Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year and received the 2005 B.C. New Canadian Entrepreneur Award. She is actively involved in community services and charitable organizations, such as the Richmond Chamber of Commerce and the Canadian Cancer Society. She holds a BSc from Simon Fraser University.

TERRY B. GRIEVE
Saskatoon, Saskatchewan

Terry B. Grieve was appointed to the BDC Board of Directors in April 1996. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also executive vice president of the Saskfund group of companies.

JEAN-RENÉ HALDE

President and Chief Executive Officer
BDC
Montréal, Quebec

Jean-René Halde joined BDC in 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He sits on the boards of The Conference Board of Canada and the Montréal General Hospital Foundation. Mr. Halde has a BA from Collège Sainte-Marie, an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

JOHN HYSHKA

Chief Financial Officer and
Chief Operating Officer
Phenomenome Discoveries Inc.
Saskatoon, Saskatchewan

John Hyshka became a member of the BDC Board of Directors in May 2005. As CFO and COO of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $40 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was director of economic development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally. Mr. Hyshka was chair of the Saskatchewan Government Growth Fund from 2003 to 2008. He now sits on the board as past chair.

ANDRINA LEVER

President and CEO
Lever Enterprises
Toronto, Ontario

Andrina Lever joined the BDC Board of Directors in June 2005. Ms. Lever has extensive experience in small business development, international commercial development, trade and governance. She is involved with Asia-Pacific Economic Cooperation and her work has taken her to more than 50 countries. She has been a member of the Bar of England and Wales as a barrister since 1980 and of the Bar of Victoria, Australia, as a barrister and solicitor since 1981. In addition to BDC, Ms. Lever sits on the boards of several non-profit organizations, as well as on the board of governors of York University.

BOARD OF DIRECTORS (continued)

at March 31, 2008

JOHN A. MACNAUGHTON

Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC Board of Directors in August 2007. He served from 1999 to 2005 as the founding president and CEO of the Canada Pension Plan Investment Board. Previously, he had spent 31 years with Nesbitt Burns Inc. and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999. Mr. MacNaughton is the chairman of Canadian Trading and Quotation System Inc. and vice chairman of the University Health Network. He is a director of Nortel Networks Corporation and TransCanada Corporation, and a member of the Order of Canada.

JEAN MARTEL

Partner
Lavery, de Billy, LLP
Montréal, Quebec

Jean Martel joined the BDC Board of Directors in September 2006. He is a partner of Lavery, de Billy, a Quebec-based law firm where he has been practising securities, financial and regulatory law in Montréal since 1999. Mr. Martel has been a director of TSX Group or its predecessors since October 1999. He is a member of the finance and audit committee and the public venture market committee of TSX Group's board of directors. From 1995 to 1999, he was chairman, president and CEO of the Commission des valeurs mobilières du Québec. Previously, Mr. Martel served as Quebec's assistant deputy minister of finance. He sits on the board of directors of Market Regulation Services Inc. and the Office Franco-Québécois pour la Jeunesse, and many of their committees. He also chairs the independent review committee of the investment funds of the Barreau du Québec.

KELVIN NG

President
Ng North Inc.
Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is president of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly and served as deputy premier, minister of finance and chair of the Financial Management Board. Mr. Ng also served in the legislative assembly of N.W.T. and held numerous portfolios in the N.W.T. government. As well as serving in municipal politics, he has held positions in the private sector in chambers of commerce and in non-profit organizations. He has also received the Queen's Golden Jubilee Award.

RICK PERKINS

Vice President, Communications
and Corporate Responsibility
Nova Scotia Liquor Corporation
Halifax, Nova Scotia

Rick Perkins joined the BDC Board of Directors in March 2008. A marketing, communications and public affairs professional, he is the Nova Scotia Liquor Corporation's vice president, communications and corporate responsibility. Mr. Perkins is a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm. He has worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce, and the Government of Canada's departments of finance and foreign affairs. He is vice chair of the board of directors of the Nova Scotia Hearing and Speech Foundation.

THOMAS R. SPENCER

Toronto, Ontario

Thomas R. Spencer joined the BDC Board of Directors in January 2008. He is retired from TD Bank Financial Group, where he held various positions, including vice president, corporate and investment banking; vice president, merchant banking services; senior vice president, risk management policy group; executive vice president, risk management; and vice chair of risk management. He sits on the boards of The Data Group Income Fund, Kruger Inc. and Vismand Exploration Inc., and he is a member of the TD private equity investors advisory committee. He holds an MBA and a BA in Economics from York University.

SENIOR MANAGEMENT TEAM

Clockwise around the table, from front left:

JEAN-RENÉ HALDE
President
and Chief Executive Officer

Jean-René Halde joined BDC in June 2005. He has more than 35 years of management experience and has, since 1979, held president and CEO positions in leading companies, including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. Throughout his career, Mr. Halde has been a board member of many organizations, including CCL Industries Inc., Groupe Vidéotron Ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He sits on the boards of The Conference Board of Canada and the Montréal General Hospital Foundation. Mr. Halde obtained a BA from Collège Sainte-Marie, an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School. He is also a graduate of the École supérieure de régie d'entreprise of the Institute of Corporate Directors.

EDMÉE MÉTIVIER
Executive Vice President,
Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for developing and implementing strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal Banking. She also oversees BDC's credit risk management. Previously, she was with the Royal Bank, where she held a number of operational positions, including vice president, small and medium-sized enterprises. Ms. Métivier is a member of the Desautels Faculty of Management advisory board at McGill University, the McGill International Executive Institute advisory board and the Canadian Youth Business Foundation board of directors. She holds an MA in Practising Management from the University of Lancaster in England.

JACQUES SIMONEAU
Executive Vice President,
Investments

Jacques Simoneau joined BDC in April 2006. He is responsible for the venture capital and subordinate financing portfolios. Previously, Mr. Simoneau was CEO of Hydro Québec Capi-Tech Inc.; senior vice president, investments, at Fonds de solidarité FTQ; and CEO of Société Innovatech du sud du Québec. He is a director of Transat A.T. Inc., Sustainable Development Technology Canada, Canada's Venture Capital and Private Equity Association, and the Club de golf de la Vallée du Richelieu. He is a member of Quebec's Conseil de la science et de la technologie and the University of Montréal's Faculty of Medicine's advisory committee. Mr. Simoneau is a professional engineer. He holds an MSc from Université Laval and a PhD from Queen's University.

LOUISE PARADIS
Senior Vice President,
Legal Affairs and Corporate Secretary

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the Board of Directors. She is also responsible for the development and implementation of strategies on records management. Previously, Ms. Paradis held managerial positions with Société Générale, the Canadian office of a major international bank, where she was responsible for legal affairs, human resources, the corporate secretariat and administration. She held the position of director of operations at Société Générale for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LLL from McGill University and is a member of the Barreau du Québec.

PAUL BURON
Executive Vice President and Chief Financial Officer

Paul Buron joined BDC in October 2006. He is responsible for finance, systems and technology, treasury, and enterprise risk management. Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was senior vice president and chief financial officer. He holds a BBA from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

MICHEL BERGERON
Vice President, Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC branding. At BDC, Mr. Bergeron has held various field positions providing financing solutions to SMEs, as well as various corporate positions, such as director, corporate planning, and director, strategic and business solutions. Previously, Mr. Bergeron was an international trade economist with the Department of Finance and Industry Canada in Ottawa. A lawyer by profession, he holds an MA in International Relations.

MARY KARAMANOS
Senior Vice President, Human Resources

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a BA in Industrial Relations from McGill University and the Certified Compensation Professional designation from World at Work. She is active in the community and supports a number of children's charities.

JÉRÔME NYCZ
Vice President, Strategy and Planning

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's corporate development, strategic planning framework and public policy. Mr. Nycz is also in charge of BDC's corporate and economic research and knowledge management. Before joining BDC, Mr. Nycz held various positions within the federal government, including senior economist and policy advisor for the Department of Finance, Industry Canada and the Department of National Defence. He has also worked in international relations at Export Development Canada and as an investment officer at the Canadian Consulate in Boston. Mr. Nycz is a member of the board of CIRANO and has an IMBA from Hartford University.

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational Statistics	**2008**	2007	2006	2005	2004
BDC Financing					
Committed to clients as at March 31					
Amount	**$ 10,951,760**	$ 10,115,995	$ 9,515,927	$ 8,852,856	$ 8,166,092
Number of clients	**27,418**	26,643	25,497	24,048	22,423
Authorizations					
Amount	**$ 2,814,349**	$ 2,586,489	$ 2,462,032	$ 2,230,194	$ 2,034,452
Number	**8,921**	9,079	8,402	7,457	7,212
Acceptances*					
Amount	**$ 2,906,667**	$ 2,691,571	–	–	–
Number	**9,143**	9,394	–	–	–
BDC Subordinate Financing					
Committed to clients as at March 31					
Amount	**$ 171,991**	$ 168,725	$ 160,246	$ 161,290	$ 187,067
Number of clients	**341**	316	305	321	373
Authorizations					
Amount	**$ 47,410**	$ 53,572	$ 47,126	$ 36,394	$ 48,195
Number	**103**	112	104	66	56
Acceptances*					
Amount	**$ 48,660**	$ 58,407	–	–	–
Number	**107**	130	–	–	–
BDC Venture Capital					
Committed to clients as at March 31					
Amount	**$ 749,107**	$ 747,857	$ 654,876	$ 604,389	$ 490,736
Number of clients	**173**	192	193	202	170
Authorizations and acceptances					
Amount	**$ 130,484**	$ 150,733	$ 140,016	$ 143,119	$ 108,812
Number	**87**	71	83	80	70
Performance Indicators					
Client satisfaction level	**93%**	93%	92%	93%	91%
Employee engagement level	**76%**	80%	78%	74%	77%
Efficiency ratio**	**48.5%**	50.2%	48.9%	48.5%	48.7%
BDC Financing portfolio	**$ 10,014,114**	$ 9,128,145	$ 8,627,199	$ 7,917,828	$ 7,291,961
Return on common equity (ROE)	**4.7%**	8.5%	9.2%	9.7%	5.1%
BDC Consulting revenue	**$ 24,802**	$ 23,523	$ 21,570	$ 18,924	$ 20,006

* For reporting purposes, BDC Financing and Subordinate Financing data prior to fiscal 2007 are based on net authorizations.
** Includes both BDC Financing and BDC Subordinate Financing.

($ in thousands)

Financial Information	**2008**	2007	2006	2005	2004
Statement of Income and Comprehensive Income for the years ended March 31					
Net income (loss)					
Financing	**$ 160,878**	$ 167,992	$ 141,060	$ 163,700	$ 86,805
Subordinate Financing	**11,007**	7,945	13,682	8,818	5,750
Venture Capital	**(82,801)**	(33,604)	(12,779)	(56,143)	(30,299)
Consulting	**(4,521)**	(4,326)	(3,782)	(2,887)	(3,135)
Net income	**$ 84,563**	$ 138,007	$ 138,181	$ 113,488	$ 59,121
Other comprehensive income	**(301)**	–	–	–	–
Comprehensive income	**$ 84,262**	$ 138,007	$ 138,181	$ 113,488	$ 59,121
Balance Sheet as at March 31					
Loans, net of allowance for credit losses	**$ 9,481,449**	$ 8,622,646	$ 8,129,880	$ 7,445,861	$ 6,813,344
Subordinate financing loans and investments	**$ 156,158**	$ 148,290	$ 143,901	$ 136,977	$ 164,200
Venture capital investments	**$ 475,985**	$ 505,118	$ 431,379	$ 383,649	$ 345,624
Total assets	**$ 11,423,566**	$ 10,804,081	$ 10,311,423	$ 9,445,161	$ 8,809,218
Total shareholder's equity	**$ 1,867,317**	$ 1,807,718	$ 1,691,277	$ 1,569,569	$ 1,218,459
Total liabilities	**$ 9,556,249**	$ 8,996,363	$ 8,620,146	$ 7,875,592	$ 7,590,759

GLOSSARY

Acceptance
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.)

Allowance for credit losses
Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Authorization
The point at which BDC has completed its due diligence and approved the client's request for financing. Authorization precedes the client's acceptance of the offered loan. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)

Change in unrealized appreciation and depreciation of investments
Amount included in income resulting from movements in the fair value of investments for the period.

Consulting revenue
Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

Cross-currency swaps
Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. It excludes other comprehensive income or losses, and accumulated other comprehensive income and losses. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments
Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments
Investments BDC makes directly in investee companies.

Efficiency ratio
A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income (including realized gains and losses on subordinate financing investments). A lower ratio indicates improved efficiency.

Fair value
The price that knowledgeable, willing parties – under no compulsion to act – would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposal of the investment.

General allowance
Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans
Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

Interest rate swaps
Agreements to exchange streams of interest payments – typically, one at a floating rate and the other at a fixed rate – over a specified period, based on notional principal amounts.

Master netting agreement
A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts related to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net interest and other income
The difference between what is earned on financing and subordinate financing portfolio assets and securities, and what is paid on borrowings, excluding the change in unrealized appreciation or depreciation of subordinate financing investments. This figure also includes realized gains and losses on subordinate financing investments.

Net margin
Net interest and other income from the financing portfolio, expressed as a percentage of the total average financing portfolio.

Performing portfolio
Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for credit losses
A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Realized net gains and losses on investments
Gains realized, net of realized capital losses, upon sale or disposition of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Return on common equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or losses, and accumulated other comprehensive income or losses.

Specific allowance
An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

Start-up
A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing
A hybrid instrument that brings together some features of both debt financing and equity financing.

Subordinate financing investments
The portfolio of subordinate financing BDC holds through its joint ventures with the Caisse de dépôt et placement du Québec, AlterInvest L.P., AlterInvest II Fund L.P. and AlterInvest Inc.

Variable interest entity (VIE)
An entity that does not have sufficient equity at risk to finance its activities without additional subordinate financial support, or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest.

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